

MARK SCHEME for the May/June 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/22

Paper 2 (Structured), maximum raw mark 120

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- 1 (a) (i) Book-keeping refers to the maintaining of all double entry records/recording transactions (1)
Accounting refers to the preparation (and interpretation) of financial statements (1) [2]
- (ii) Accounting entity means that the business is treated as being completely separate (1)
from the owner of the business (1). [2]

(b) Hajar account

		\$			\$	
April 1	Balance b/d	2100		April 7	Returns inwards	192 (1)
5	Sales	1600 (1)		18	Bank/cash	2058 (1)
					Discount allowed	42 (1)
				30	Balance c/d	<u>1408</u>
						<u>3700</u>
		<u>3700</u>				
May 1	Balance b/d	1408 (1) of				

[5]

(c)

Date		Document
5 April	Fashran sold goods on credit to Hajar	Sales invoice (1)
7 April	Hajar returned goods to Fashran purchased on the 5 April	Credit note (1)
30 April	Fashran issues a summary of Hajar's account for the month of April	Statement of account (1)

[3]

- (d) Sales/debtors/trade receivables ledger (1) [1]

(e)

Fashran
Trial Balance at 30 April 2014

	Dr	Cr
	\$	\$
Trade payables		6 450
Trade receivables	9 230	
Revenue		68 400
Purchases	29 800	
Inventory 1 May 2013	5 100	
Bank overdraft		830
Expenses	22 350	
Non-current assets	24 000	
Provision for depreciation – Non-current assets		7 800
Capital		7 000
	<u>90 480</u>	<u>90 480</u>

(1) for any two correct items

[5]

[Total: 18]

2 (a)

Sales ledger control account

\$			\$			
April 1	Balance b/d	20 450		April 1	Balance b/d	600
30	Credit sales	50 500 (1)	30	Sales returns	700 (1)	
	Refund	750 (1)		Receipts	48 600 (1)	
	Balance c/d	<u>180</u>		Discount allowed	1 200 (1)	
		<u>71 880</u>		Bad debt	800 (1)	
				Balance c/d	<u>19 980</u>	
May 1	Balance b/d	19 980 (1of) no alien	May 1	Balance b/d	<u>71 880</u>	
					180	[7]

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(b)

Journal		Dr	Cr	
		\$	\$	
D Kay		450		(1)
D Moy			450	(1)
G Fallen		180		(1)
Purchases			180	(1)
F Tay		90		(1)
Discount received			90	(1)
Fixture and fittings repairs	800			(1)
Fixtures and fittings			800	(1)

[8]

(c)

	Type of error
1 A cheque received from D Moy, \$450, had been posted to the account of D Kay.	<i>Commission</i>
2 An invoice for goods received from G Fallen, costing \$790, had been recorded in the purchases journal as \$970.	Original entry (1)
3 Discount received, \$45, had been debited to the discount received account and credited to F Tay.	Reversal (1)
4 Repairs to fixtures and fittings, \$800, had been recorded in the fixtures and fittings account.	Principle (1)

[3]

- (d) Used when the trial balance fails to agree (1)
Used to balance the trial balance (1)
To complete the double entry when the trial balance fails to agree (1)
To enable draft financial statements to be prepared (1)
To **assist** in the correction of errors (1)

[max 2]

[Total: 20]

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3 (a) (i) The expense can be directly linked or traced to the product/unit/goods being manufactured. [1]

(ii) Raw materials
 Factory wages
 Royalties
 (1) × 2 points [2]

(b)

Cadmore Limited
 Manufacturing Account for the month ended 30 April 2014

	\$	\$	
Opening inventory of raw materials	10 830		
Purchases of raw materials	<u>80 670</u>		
	91 500		
Less Closing inventory of raw materials	<u>12 400</u>		
Raw materials consumed		79 100	(1) w + f
Factory wages		60 690	(1)
Royalties		<u>7 500</u>	(1)
Prime cost (1)		147 290	(1) of no alien
Plus Factory overheads:			
Depreciation on machinery	7 000		
Rent of factory	2 000		(1)
Factory management salaries	10 750		(1)
Insurance	1 000		(1)
General expenses	<u>5 000</u>		(1)
		<u>25 750</u>	
		173 040	
Work in progress 1 April	12 700		
Less Work in progress 30 April	<u>(9 980)</u>		
		<u>2 720</u>	(1)
Production cost		<u>175 760</u>	(1of) w + f no alien

[11]

(c)

Net pay:	\$		
160 hours × \$8 =	1 280		
40 hours × \$12 =	480		
20 hours × \$16 =	<u>320</u>		
	2 080		(1)
Less Tax and social security	<u>240</u>		(1)
Net pay for April	1 840		(1)

[3]

(d)

Employee contribution	\$ 240	(1)	
Employer contribution	<u>208</u>	(1of)	
Total contribution	448	(1)of no alien	

[3]

[Total: 20]

4 (a)

	\$
Opening inventory	20 000
Purchases	<u>122 000</u>
	142 000
Closing inventory	<u>16 000</u>
Cost of sales	126 000 (1)

$$\frac{42\,000\ (1)}{168\,000\ (1)} \times 100 = 25\% \ (1)$$

$$\frac{126\,000\ (1)}{(20\,000 + 16\,000)/2\ (1)} = 7 \text{ times} \ (1)$$

$$\frac{16\,000 + 24\,500 + 1500\ (1)}{35\,000\ (1)} = 1.2:1 \ (1)$$

[10]

(b) Najla has controlled the inventory well/better/improved/efficiently

The closing inventory is lower than the opening inventory

Najla is selling goods faster

(1) × 2 points

The ability to pay trade payables is decreasing (1), but has sufficient current assets to cover trade payables (1)

Trade payables considerably higher than 'quick' assets/trade receivables

Little cash in the bank

(1) × 2 points

[4]

(c) Higher/increased selling prices

Cheaper purchases (1) lower cost of sales (1) bulk buying (1) more trade discount (1)

(1) × 2 points

[max 2]

(d)

Proposals	Working capital		Amount of change (\$)
	increase	decrease	
1		✓	\$500
2	✓ (1)		\$3000 (1)
3		✓ (1)	\$200 (1)
4	✓ (1)		\$2000 (1)

[6]

[Total: 22]

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5 (a)

Franco

Income Statement for the year ended 31 January 2014

	\$	\$	
Revenue		362 500	
Returns		<u>7 200</u>	
		355 300	(1)
Inventory 1 February 2013	17 970		(1)
Purchases	<u>172 400</u>		(1)
	190 370		
Returns	<u>(8 800)</u>		(1)
	181 570		
Inventory 31 January 2014	<u>(15 600)</u>		(1)
Cost of sales		<u>(165 970)</u>	(1) + w
Gross profit		189 330	(1) of + w no alien
Add Other income			
Commission received	11 400		(1)
Profit on disposal	<u>500</u>		(1)
		<u>11 900</u>	
		201 230	
Less Expenses			
Distribution expenses	16 300		(1)
Insurance	5 900		(1)
Light and heat	7 850		(1)
Wages and salaries (69 500 – 15 000)	54 500		(1)
Marketing expenses (31 000 – 6 750)	24 250		(1)
General expenses	9 200		(1)
Loan interest	8 000		(1)
Depreciation:			
Buildings	2 000		(2)
Fixtures	4 500		(1)
Computer equipment	11 000		(2)
Bad debts	3 000		(1)
Increase in provision for doubtful debts	<u>700</u>		(2)
		<u>(147 200)</u>	
Profit for the year		<u>54 030</u>	

[24]

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Statement of Financial Position at 31 January 2014

	\$ Cost	\$ Accumulated Depreciation	\$ NBV	
<u>Non-current assets</u>				
Land and buildings	150 000	22 000	128 000	(1of)
Fixtures and fittings	30 000	18 000	12 000	(1of)
Computer equipment	<u>78 000</u>	<u>45 000</u>	<u>33 000</u>	(1of)
	<u>258 000</u>	<u>85 000</u>	173 000	(1 of)
<u>Current assets</u>				
Inventory		15 600		(1)
Trade receivables	42 000			(1)
Less Provision for doubtful debts	<u>2 100</u>			
		39 900		(1of)
Other receivables		6 750		(1)
Bank (17 430 – 8 000)		<u>9 430</u>		(1)
		71 680		
Less				
<u>Current liabilities</u>				
Trade payables	37 650			(1)
Other payables	<u>8 000</u>			(1)of
		<u>45 650</u>		
Net current assets			<u>26 030</u>	
			199 030	
<u>Non-current liabilities (1)</u>				
8% Bank loan			<u>(100 000)</u>	(1)
			<u>99 030</u>	
Capital			80 000	
Profit for the year			<u>54 030</u>	(1of)
			134 030	
Drawings (20 000 (1) + 15 000 (1))			<u>(35 000)</u>	
			<u>99 030</u>	[16]
				[Total: 40]