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**MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers**

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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- 1 (a) (i) \$80 000 (1) [1]
- (ii) \$130 000 (1) [1]

(b)

Transaction	Book of original entry	Debit entry	Credit entry	Effect on capital \$
(i)	Purchases Journal	Purchases	Henry	Nil
(ii)	Sales journal (1)	Mary (1)	Sales (1)	+200 (1)
(iii)	Cash Book (1)	Henry (1)	Bank Discount (1) for both	+10 (1)
(iv)	Sales returns journal (1)	Sales returns (1)	Mary (1)	-20 (1)

[12]

(c) (ii) The invoice is a demand for payment from Mary. (2/0)

(iii) A cheque will be raised to pay Henry and the counterfoil will be completed as a record of the payment. (2/0)

(iv) The credit note will acknowledge the return of goods by Mary. Her account will be credited in Joe's books. (2/0)

[6]

[Total: 20]

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- 2 (a) Identify and locate errors
Prevent fraud with separation of duties
Speedy calculation of summarised trade payables and trade receivables
(1) per point × 2 [2]

(b)

Sales Ledger Control Account

2011	\$	2011	\$
Balance b/d	64 350 (1)	Bank	136 800 (1)
Sales	153 400 (1)	Discount allowed	5 250 (1)
		Bad debts	7 900 (1)
		Returns inwards	8 100 (1)
		Balance c/d	<u>59 700 (1)</u>
	<u>217 750</u>		<u>217 750</u>
May 1 Balance b/d	59 700 (1of)		

(c) (i)

Journal

	Dr	Cr	
	\$	\$	
1. D.Holme	485		(1)
D. Hume		485	(1)
2. Office equipment	550		(1)
Purchases		550	(1)

- (ii) 2 × 1 mark for reference to relevant accounting concepts (2) [6]

(d)

	\$
35 hours × \$7 =	245 (1)
10 hours × \$10.5 =	<u>105 (1)</u>
	350
Employers' tax	<u>35 (1)</u>
Total cost	385 (1)

[4]

[Total: 20]

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- 3 (a) Salaries
 Rate of interest on capital
 Rate of interest on drawings
 Arrangements for loans
 Arrangements for introduction/retirement of partners
 (1) per point × 2 [2]

(b)

Choong and Tan
 Appropriation Account for the year ended 30 April 2011.

	\$		\$	
Profit for the year			32 000	
Less				
Interest on capital:				
Choong	4 000	(1)		
Tan	<u>2 500</u>	(1)		
			<u>6 500</u>	
			25 500	
Salary: Tan			<u>9 000</u>	(1)
			16 500	
Share of profit:				
Choong	11 000	(1)		
Tan	<u>5 500</u>	(1)		
			<u>16 500</u>	[5]

(c)

Current Accounts

	Choong	Tan		Choong	Tan	
	\$	\$		\$	\$	
2010			2010			
May 1 Balance b/d		1 500	May 1 Balance b/d	1 200		(1)
2011			2011			
Apl 30 Drawings	14 700	16 000	Apl 30 Int on cap	4 000	2 500	(1of)
			Salary		9 000	(1of)
			Share of profit	11 000	5 500	(1of)
			Balance c/d		<u>500</u>	(1)
Balance c/d	<u>1 500</u>			<u>16 200</u>	<u>17 500</u>	
	<u>16 200</u>	<u>17 500</u>	Balance c/d	1 500	(1of)	
May 1 Balance c/d		500				

Alternative: allow separate accounts [7]

- (d) Difficult to value
 Against principle of money measurement
 Intangible
 Allow any acceptable alternatives.
 (2) × one point [2]

(e)

Capital Accounts

	Choong	Tan		Choong	Tan	
2011	\$	\$		\$	\$	
Goodwill	60 000	30 000	(2)	Balance b/d	80 000	50 000 (1)
Balance b/d	<u>20 000</u>	<u>20 000</u>			<u>80 000</u>	<u>50 000</u>
	<u>80 000</u>	<u>80 000</u>		Balance b/d	20 000	20 000 (1of) [4]

[Total: 20]

- 4 (a) (i) $\frac{\text{Net profit}}{\text{Revenue}} \times 100 = \frac{44\,000}{220\,000} \times 100 \begin{matrix} (1) \\ (1) \end{matrix} = 20\% (1)$
- (ii) $\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{44\,000}{160\,000} \times 100 \begin{matrix} (1) \\ (1) \end{matrix} = 27.5\% (1)$
- (iii) $\frac{\text{Current assets}}{\text{Liabilities due in less than one year}} = \frac{35\,000 + 40\,000 + 15\,000}{60\,000} \begin{matrix} (1) \\ (1) \end{matrix} = 1.5:1 (1)$
- (iv) $\frac{\text{Current assets - Inventory}}{\text{Liabilities due in less than one year}} = \frac{40\,000 + 15\,000}{60\,000} \begin{matrix} (1) \\ (1) \end{matrix} = 0.9:1 (1)$
- [12]

- (b) Revenue is reduced by \$40 000
 Gross profit % appears to be reduced
 Expenses have reduced, but not in proportion to the revenue.
 (2) per point × 2 [4]

- (c) Increased capital which could have been in cash
 Possible reduced drawings
 Reduced inventory
 Improved collection of debts
 Reduced expenses.
 (2) per point × 2 [4]

[Total: 20]

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5 (a)

Yip Sin

Manufacturing Account for the year ended 30 April 2011

	\$	\$	
Inventory of raw materials at 1 May 2010	20 900		(1)
Purchases of raw materials	<u>147 200</u>		(1)
	168 100		
Less: Inventory of raw materials at 30 April 2011	<u>28 100</u>		(1)
Cost of raw materials consumed	140 000		(1)
Direct factory wages (85 960 + 4040)	90 000		(1)
Royalties	<u>10 000</u>		(1)
Prime cost (1)		240 000	(1)
Factory overheads:			
Indirect factory expenses	23 450		(1)
Rent	24 000		(1)
Factory management salaries	36 000		(1)
Provision for depreciation of plant and machinery	<u>10 000</u>		(1)
		<u>93 450</u>	
		333 450	
Add increase in work in progress (30 800 – 34250)		<u>(3 450)</u>	(1)
Cost of production (1)		<u>330 000</u>	[14]

(b)

Income Statement for the year ended 30 April 2011

	\$	\$	
Revenue		450 000	(1)
Inventory of finished goods at 1 May 2010	40 750		
Cost of production	<u>330 000</u>		(1of)
	370 750		
Inventory of finished goods at 30 April 2011	<u>42 350</u>		(1)
Cost of sales		<u>328 400</u>	
Gross profit		121 600	
Rent	6 000		(1)
Office salaries	28 500		(1)
Advertising (20 940 – 1 700)	19 240		(1)
Distribution costs	18 650		(1)
General office expenses (11 300 – 2 000)	9 300		(2)
Loan interest (1 500 + 1 500)	3 000		(1)
Provision for depreciation on office equipment	2 600		(2)
Increase in provision for doubtful debts	<u>800</u>		(1)
		<u>88 090</u>	
Profit for the year		<u>33 510</u>	[13]

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(c)

Balance sheet as at 30 April 2011

	Cost	Depreciation to date	NBV	
	\$	\$	\$	
<u>Non-current assets</u>				
Plant and machinery	75 000	35 000	40 000	(1)OF
Office equipment	<u>26 000</u>	<u>11 600</u>	<u>14 400</u>	(1)OF
	<u>101 000</u>	<u>46 600</u>	54 400	
<u>Current assets</u>				
Inventory:				
Raw materials	28 100			
Work in progress	34 250			
Finished goods	<u>42 350</u>			
		104 700		(1)
Trade receivables	64 000			
Less: provision for doubtful debts	<u>3 200</u>			
		60 800		(2)
Other receivables		1 700		(1)
Bank		<u>4 200</u>		(1)
		171 400		
Less: <u>Current liabilities</u>				
Trade payables	61 750			(1)
Other payables (accrued expenses) (4040 + 1500)	<u>5 540</u>			(2)
		<u>67 290</u>		
Net current assets			<u>104 110</u>	
			158 510	
<u>Non-current liabilities</u>				
6% loan repayable 31 December 2020			<u>50 000</u>	(1)
			<u>108 510</u>	
Financed by:				
Capital		100 000		
Plus: Profit for the year		<u>33 510</u>		(1)
		133 510		
Less: Drawings		<u>25 000</u>		
			<u>108 510</u>	(1of)
				[13]

[Total: 40]