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CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7110 PRINCIPLES OF ACCOUNTS

7110/21 Paper 2 (Structured), maximum raw mark 120

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1 **(a)** The stationery is prepaid by $60/Asir has a stock of stationery worth $60. **(1)** [1]

(b)

Stationery account

		$				$	
July 1	Balance b/d	60		Sep 3	Rapid Office	45	**(1)**
Aug 18	Rapid Office	450	**(1)**	Sept 30	Income statement	390	**(1)**
Aug 20	Cash	150	**(1)**	Sept 30	Balance c/d	225	
		660				660	
Oct 1	Balance b/d	225	**(1of)**				

Rapid Office Supplies account

		$				$	
July 30	Bank	384		July 1	Balance b/d	400	
July 30	Discount rec	16	**(1)**	Aug 18	Stationery	450	**(1)**
Sept 3	Stationery	45	**(1)**				
Sept 30	Balance c/d	405					
		850				850	
				Oct 1	Balance b/d	405	**(1of)**

[9]

(c) **(i)** Invoice **(1)**

(ii) Credit note **(1)** [2]

(d)

	$
Trial balance	615 **(1)**
Income statement	390 **(1of)**
Balance sheet	225 **(1of)**

[3]

(e) **(i)** Current assets **(1)**

(ii) Current liabilities **(1)** [2]

(f) **(i)** Asir will match his revenue to his expenses for the period therefore will only transfer the value of stationery that he has used not the value that he has purchased. **(2)**

(ii) Accruals/Matching concept **(1)** [3]

[Total: 20]

2 **(a)** **(i)** Depreciation is the continuing diminution in value of a non-current asset **(2)** [2]

(ii) Wear and tear
Obsolescence
Depletion
Passage of time
(1) × 2 points [2]

(b) Apportions an equal amount of depreciation to each year of ownership
More appropriate to fixed assets that depreciate by an equal amount each year
(2) × 1 point [2]

(c) **(i)** Equipment provision for depreciation account

		$				$	
Jan 31	Disposal	16 800	**(1)**	Sept 1	Balance b/d	24 000	**(1)**
Aug 31	Balance c/d	20 600		Aug 31	Income statement	13 400	**(1)**
		37 400				37 400	
				Sept 1	Balance b/d	20 600	**(1of)**

(ii) Equipment disposal account

		$				$	
Jan 31	Equipment	28 000	**(1)**	Jan 31	Provision for deprec'n	16 800	**(1)**
				Jan 31	Bank	10 000	**(1)**
				Aug 31	Income statement	1 200	**(1)**
		28 000				28 000	

[8]

(d) Balance sheet (extract) at 31 August 2012

Non-current assets	Cost		Accumulated depreciation		NBV	
	$		$		$	
Equipment	67 000	**(1)**	20 600	**(1)**	46 400	**(1of)**
Office computer	8 600	**(1)**	6 350	**(1)**	2 250	**(1of)**
	75 600		26 950		48 650	

[6]

[Total: 20]

3 **(a)** Sandar Manufacturing

Manufacturing Account for the year ended 30 September 2012

	$		$	
Opening inventory of raw materials	17 500	**(1)**		
Purchases of raw materials	82 600	**(1)**		
Carriage on raw materials	7 200	**(1)**		
	107 300			
Closing inventory of raw materials	16 300	**(1)**		
Cost of raw materials consumed			91 000	**(1of)**
Production wages	75 000	**(1)**		
Royalties	9 000	**(1)**		
			84 000	
PRIME COST			175 000	**(1of)**
Factory overheads:				
Production manager's salary	20 500	**(1)**		
Rent, rates and power	18 400	**(1)**		
General factory expenses (15 200 + 400)	15 600	**(1)**		
Premises maintenance	28 000	**(1)**		
Depreciation on factory machinery	7 500	**(1)**		
			90 000	
Work in progress:				
At 1 October 2011	24 000	**(1)**		
At 30 September 2012	(29 000)	**(1)**		
			(5 000)	
PRODUCTION COST			260 000	**(1of)**

[16]

(b) A cost which can be directly linked to the product being manufactured. **(2)** [2]

(c) Raw materials
Production wages
Royalties
(2) × 1 point [2]

[Total: 20]

4 **(a)** **(i)** Revenue (sales) $\frac{120\,000}{} \times \frac{125}{25}$ = $600 000 **(3)** [3]

(ii) Net profit/ sales percentage $\frac{48\,000}{600\,000} \times 100$ = 8% **(3)** [3]

(iii) Net profit / capital percentage $\frac{48\,000}{320\,000} \times 100$ =15% **(3)** [3]

(iv) Quick ratio (acid test) $\frac{60\,000}{60\,000}$ = 1:1 **(3)** [3]

(b) Quick ratio (acid test) does not contain inventory **(1)**
Inventory may be difficult or take time to sell **(1)** [2]

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(c) The cash level is low at $5 000 and probably insufficient **(1)**
Maya has to repay the $35 000 loan in 1 month **(2)**
Any other valid point [3]

(d) Introduce additional capital
Raise a long term loan
Sell surplus non-current assets
Press trade receivables for swift payment/ offer a cash discount
Sell some inventory for cash/ hold a sale of some inventory
Extend trade payables payment period
Any other valid point

(1) × 3 points [3]

[Total: 20]

5 **(a)**

Maria
Income Statement for the year ended 30 September 2012

	$		$		
Revenue			365 000		
Returns			8 900		
			356 100	**(1)**	
Inventory 1 October 2011	33 500	**(1)**			
Purchases (135 000 + 7 500)	142 500	**(2)**			
	176 000				
Returns	(4 250)	**(1)**			
	171 750				
Inventory 30 September 2012	(36 450)	**(1)**			
Cost of sales			135 300	**(1)**	
Gross profit			220 800		
Plus					
Discount received	7 300	**(1)**			
Decrease in Provision for doubtful debts	3 400	**(2)**			
			10 700		
			231 500		
Less					
Loan interest (2 000 + 1 000)	3 000	**(1)**			
Distribution expenses	18 630	**(1)**			
Computer repairs (19 150 + 1 700)	20 850	**(1)**			
General running expenses (31 600 – 4 000)	27 600	**(1)**			
Salaries and wages (86 700 – 5 200)	81 500	**(1)**			
Marketing costs	14 000	**(1)**			
Discount allowed	22 400	**(1)**			
Depreciation:					
Buildings	2 000	**(1)**			
Fixtures	4 800	**(2)**			
Computers	7 000	**(1)**			
			(201 780)		
Profit for the year			29 720	**(1of)**	[22]

Balance Sheet at 30 September 2012

	Cost	Accumulated Depreciation	NBV		
Non current assets	$	$	$		
Land and buildings	150 000	12 000	138 000	**(2)**	
Fixtures and fittings	32 000	23 800	8 200	**(2of)**	
Computer equipment	40 000	19 000	21 000	**(1of)**	
	222 000	54 800	167 200		
Current assets					
Inventory		36 450		**(1)**	
Trade receivables	60 000				
Less Provision for doubtful debts	3 000				
		57 000		**(2)**	
Other receivables		5 200		**(1)**	
Bank		14 070		**(1)**	
		112 720			
Less					
Current liabilities					
Trade payables (31 000 + 7 500)		38 500		**(2)**	
Other payables (1 700 + 1 000)		2 700		**(2)**	
		(41 200)			
Net current assets			71 520	**(1of)**	
			238 720		
Non current liabilities					
8% Bank loan			(50 000)	**(1)**	
			188 720		
Financed by:					
Capital at 1 October 2011			180 000		
Profit for the year			29 720	**(1of)**	
			209 720		
Drawings			(21 000)		
			188 720	**(1of)**	[18]

[Total: 40]