

MARK SCHEME for the October/November 2008 question paper

7110 PRINCIPLES OF ACCOUNTS

7110/02

Paper 2 (Structured), maximum raw mark 100

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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1 (a)

Jason Moore
Trial Balance at 31 October 2008

	\$	\$	
Provision for doubtful debts		150	
Capital		16 550	
Drawings	8 000		
Plant and equipment	18 000		
Provision for depreciation of plant and equipment		3 000	
Stock	4 000		
Debtors	3 000		
Creditors		2 000	
Cash	1 500		
Sales		40 000	
Purchases	21 000		
Sundry expenses	<u>6 200</u>		
	<u>61 700</u>	<u>61 700</u>	(3)

(Three marks for both correct totals; one mark if suspense account inserted) [3]

(b) Confirms arithmetical accuracy of the double-entry (1)
Acts as a basis from which to prepare final accounts (1) [2]

(c) Error of omission (1) – complete omission of a transaction (1)
Error of commission (1) – correct amount entered in incorrect account of correct class (1)
Error of principle (1) – item entered into incorrect class of account (1)
Compensating error (1) – errors cancel each other out (1)
Error of original entry (1) – item entered at incorrect amount in both accounts (1)
Error of reversal (1) – debit entry posted as credit and vice versa (1)
Transposition error (1) – error in sequence of numbers in both accounts (1)
Any 3 points, 2 marks each [max 6]

(d)

	Dr \$	Cr \$	
Purchases	3000 (1)		
Plant and equipment		3000 (1)	
Creditors	1000 (1)		
Cash		1000 (1)	[4]

(e) (i) Running balance format (1)
The balance is always available (1) [2]

(ii) The trial balance figure represents the balance before the final accounts are prepared. (1)
The final ledger balance is after preparation (1)
OR
The end of year transactions are posted after the final accounts is prepared (1) resulting
in the final ledger account balance (1) [2]

[Total: 19]

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2 (a) Sales Ledger Control account

	\$		\$
Balance b/d	33 200	(1) Bank	135 000 (1)
Sales	163 100	Bad debts	5 500 (1)
		Discount allowed	7 200 (1)
	<u>196 300</u>	Balance c/d	<u>48 600 (1)</u>
			<u>196 300</u>
Sales on credit	163 100		
Cash sales	<u>56 000 (1)</u>		
	219 100 (1of)		

Accept any format [7]

(b) Gross profit 40% × \$219 100 (of) = \$87 640 (1of)
 Net profit 5% × \$219 100 (of) = \$10 955 (1of) [2]

(c) (i) 25 × 50 × \$6 = \$7 500 (1)
 30 × 50 × \$8 = \$12 000 (1)
\$19 500 (1of) [3]

(ii) Social security/national insurance (1)
 Pension contributions (1) [max 1]

(d) A 10% increase in pay would add \$1950 to basic payroll costs (1)
 Additional costs would also accrue on additional pay (1)
 Tina would need information to ensure she could meet additional costs (1)
 She would need to evaluate the effect of the increase on profits (1)
 She would need to consider if changes (increased prices) are needed to pay additional wages (1)
 She would need to think about effects on future plans (1)
 Tina would need to ensure she has enough cash to pay additional wages (1)
 She would need to consider if the business would still be earning sufficient profits to meet her needs (1)
Any 3 points, 2 marks each
(accept other appropriate comments) [max 6]

[Total: 19]

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3 (a) Calculation of accumulated fund

	\$	
Subscriptions in arrears	130	
Stock of refreshments	340	
Balance at bank	<u>740</u>	
	1 210	
Subscriptions in advance	<u>210</u>	
Accumulated fund	<u>1 000</u>	(2)

Accept any presentation

[2]

(b) Avalon Social Club
Subscriptions account

	\$		\$
2007		2007	
1 Nov Balance b/d	130 (1)	1 Nov Balance b/d	210 (1)
2008		2008	
31 Oct Balance c/d	90 (1)	Various Bank	1710 (1)
31 Oct Income & expenditure account	<u>1700</u> (1)		
	<u>1920</u>		<u>1920</u>
		2008	
		1 Nov Balance b/d	90

Accept running balance format

[5]

(c) Profit made on sale of refreshments

	\$		\$
Opening stock	340	Sales	4970
Purchases	<u>3630</u>		
	3970		
Less: closing stock	<u>290</u>		
Cost of goods sold	3680		
Gross profit on sales	<u>1290</u> (2)		
	<u>4970</u>		<u>4970</u>

Accept any presentation

[2]

(d) Avalon Social Club
Income and Expenditure account for the year ended 31 October 2008

	\$		\$
Rent and rates	1400	Subscriptions	1700 (1of)
Insurance	300	Profit on sale of refreshments	1290 (1of)
Sundry expenses	<u>1300</u>	Deficit of expenditure over income	<u>10</u> (1of)
	<u>3000</u> (1)		<u>3000</u>

Accept vertical format

[4]

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- (e) Matching/accruals is used to calculate the amount of subscriptions members should pay for the year to 31 October (2)
This is irrespective of the amounts actually paid (2)
It recognises amounts owed/owing for past and previous periods (2) [max 4]

[Total: 17]

- 4 (a) Agrippa Ltd
Appropriation account for the year ended 31 October 2008

	\$			\$
General reserve	20 000	(1)	Balance b/d	50 000 (1)
Preference share dividend	1 500	(1)	Net profit	7 000 (1)
Ordinary share dividend:				
Interim	600	(1)		
Proposed	<u>1000</u>	(1)		
	1 600			
Balance c/d	<u>33 900</u>	(1)		
	<u>57 000</u>			<u>57 000</u>

Accept vertical format [7]

- (b) Agrippa Ltd
Balance Sheet (extract) as at 31 October 2008

	\$
Called up share capital	
5% \$1 Preference shares	30 000 (1)
\$1 Ordinary shares	40 000 (1)
General reserve	28 000 (1)
Profit and loss account	<u>33 900 (1of)</u>
	<u>131 900</u>

[4]

- (c) Authorised share capital is the maximum a company may issue (1)
OR
Authorised capital is the amount of share capital a company is authorised to issue by its memorandum and articles of association (1)

Called up share capital is the total amount the company had sold on fully or partly paid shares (1) [2]

- (d) Ordinary shares have variable dividends or in some years no dividends, whereas preference shares have a fixed dividend (2)
OR
Preference shares have preferential rights on the winding up of a company whereas ordinary shares have no such rights (2)

Accept other appropriate alternatives [2]

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- (e) Debentures represent creditors of a company where preference shares represent a form of membership (2)
OR
Debentures may be secured whereas preference shares are not secured (2)

Accept other appropriate alternatives [2]

- (f) This approach does not follow accounting standards (2)
This is not legally acceptable (2)
The change would overstate the profits (2)

Accept other appropriate alternatives [max 4]

- (g) IASs provide a commonly understood range of rules (2)
Accountants therefore have guidance to follow (2)
This offers less opportunity for confusion (2)
Comparison is easier as similar rules are followed (2)
There is less opportunity for manipulation of results (2)
IASs mean that there is some regulation of accounts improving reliability (2)

Accept other appropriate alternatives [max 4]

[Total: 25]

5 (a) Samma Rashid
Manufacturing Account for the year ended 31 October 2008

	\$		\$		\$
Stock of raw materials at 1 November 2007			26 700	(1)	Cost of production (1) 422 360
Purchases of raw materials			<u>213 200</u>	(1)	
			239 900		
Less: stock of raw materials at 31 Oct 2008			<u>30 640</u>	(1)	
Cost of materials consumed (1)			209 260		
Direct factory wages (145 300 + 12 100)			<u>157 400</u>	(1)	
Prime cost (1)			366 660		
Factory manager's salary	14 800	(1)			
Indirect factory expenses	23 200	(1)			
Provision for depreciation of factory plant and machinery (80 000 – 8 000) x 25%	<u>18 000</u>	(1)	<u>56 000</u>		
			422 660		
Less increase in work in progress			<u>300</u>	(1)	
			<u>422 360</u>		<u>422 360</u>

Accept alternative presentation

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(b)

Samma Rashid

Trading and Profit and Loss Account for the year ended 31 October 2008

	\$		\$
Stock of finished goods at 1 November 2007	2 450	(1)	Sales
Cost of production	422 360	(1of)	525 300
Purchases of finished goods 15 800 (1)			
Less returns <u>900</u> (1)	<u>14 900</u>		
	439 710		
Less stock of finished goods at 31 Oct 2008	<u>2 150</u>	(1)	
Cost of goods sold	437 560		
Gross profit c/d	<u>87 740</u>		
	<u>525 300</u>		<u>525 300</u>
Office salaries	36 200	(1)	Gross profit b/d
Sundry office expenses	18 600	(1)	87 740
Distribution costs (23 400 – 1 860)	21 540	(1)	Discounts received
Provision for depreciation			5 100
of office equipment [(24 000 – 15 360) × 40%]	3 456	(1)	Reduction in provision
Net profit c/d	<u>13 055</u>		for doubtful debts
	<u>92 851</u>		{800 – [(44 250 – 4800)
			× 2%]}
			<u>11</u>
			<u>92 851</u>

Accept any recognisable layout

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(c)

Samma Rashid
Balance Sheet as at 31 October 2008

	Cost	Acc Depr'n	NBV			
Fixed assets				Capital at		
Factory plant and machinery	80 000	54 000 (1of)	26 000	1 November 2007	80 740	(1)
Office equipment	<u>24 000</u>	<u>18 816</u> (1of)	<u>5 184</u>	Net profit	<u>13 055</u>	(1of)
	<u>104 000</u>	<u>72 816</u>	31 184 (1)	Drawings	<u>11 600</u>	(1)
						82 195
Current assets						
Stock				Current liabilities		
Raw materials	30 640			Creditors	19 600	(1)
Work in progress	8 200			Accrued direct factory wages	<u>12 100</u>	(1)
Finished goods	<u>2 150</u>	40 990 (1)				31 700 (1of) if no aliens
Debtors	39 450 (1)					
Less: provision for doubtful debts	<u>789</u> (1of)	38 661				
Cash at bank		1 200 (1)				
Prepaid distribution costs		<u>1 860</u> (1)	<u>82 711</u> (1of)			
			<u>113 895</u>			<u>113 895</u>

Accept any recognisable layout

[15]

[Total: 40]