UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2007 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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the October/November 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE
International Examinations

1 **(a)**

	$	
Gross sales	1 200	
Trade discount	(300)	**(1)**
	900	
Cash discount	(90)	**(1)**
Net sales	810	**(1)**

[3]

(b) **(i)** 1 Overstated sales have overstated net profit. **(1)**

2 Office equipment is capital expenditure and will not affect profit until the asset is owned for a full year. **(1)**
OR
No effect, depreciation has not been charged. **(1)**

3 Prepaid insurance has no effect on profit. **(1)** [3]

(ii)

	$	
Profit before adjustment	14 200	
Effect of overstated sales (1200 – 810)	(390)	**(2)**/**(1 of)**
Corrected profit	13 810	**(1 of)** (*if no aliens*)

[3]

(c) The bank balance is not affected. **(1)**
Fixed assets (office equipment) have been overstated. **(1)** [2]

[Total: 11]

2 **(a)** **(i)** Capital $40 000 **(1)**
Capital employed $64 600 **(1)** [2]

(ii) Capital is the amount invested by the shareholders/owners of the business. **(1)**
Capital employed is the amount of money used in the business represented by shares plus profit and loss account **(1)** *or* net assets. **(1)**
Accept other definitions of capital employed. [max 2]

(b) Net assets reduced by $4 300. **(1)**
As share capital is unchanged, the profit and loss balance has reduced **(1)**
The company has made a loss for the year. **(1)**
The company may have made a profit but distributed a high proportion of dividends. **(2)**
[max 3]

(c) Increase/sell shares. **(1)**
Increase profits/make a profit **(1)**
Reduce appropriations/dividends. **(1)**
Obtain long term loans
issue depentures/bonds [3]

[Total: 10]

3 **(a)** Cost – historical/invoice price **(1)**
Net realisable value – amount stock would sell for at date of valuation. **(1)**
OR market value less expenses **(1)**
(*N.B. Do not accept market price.*) [2]

(b) Gross profit would increase by $200. **(1)**
Net profit would increase by $200. **(1)** [2]

(c) Stock turnover has worsened. **(1)**
Some stock may be obsolete **(1)** and remains in stores. **(1)**
Sales activity may be slower **(1)** because of competition. **(1)**
Changed circumstances may mean closing stock figures are higher in latest year affecting ratio. **(2)**
Falling demand
Changes in fashion
Sale price is too high [max 4]

(d) Reduce prices to sell goods more quickly. **(1)**
Only replace stock when needed. **(1)**
Advertise/Sales promotions
Dispose of obsolete stock
Offer discounts to promote sales [max 2]

[Total: 10]

4 CookSmart Ltd
Manufacturing Account for the year ended 30 September 2007

RAW MATERIALS				
Opening Stock			18 700	1
Add Purchases			111 400	1
Carriage			31 200	1
			161 300	
Less Closing Stock			(18 100)	1
Cost of materials consumed	1		143 200	1
Containers and packaging				
(34 100 1 + 176 200 1 – 33 800 1)			176 500	**(3)**
Factory wages			103 400	1
PRIME COST	1		423 100	1 of
Factory Overheads				
Salary Factory Supervisor		21 800 1		
Depreciation Factory Plant		96 200 1	118 000	
			541 100	
Add work in progress			100	1
			541 200	for
Less work in progress			(200)	figs
Cost Production	1		541 000	1

[Total: 17]

5 (a) Debtors

	$			$		
Balance b/d	9 300		Bank	112 070	**(1)**	
Sales	113 000	**(1)**	Balance c/d	10 230	**(1)**	
	122 300			122 300		[3]

(b) Creditors

	$			$		
Bank	95 400	**(1)**	Balance b/d	8 700		
Balance c/d	9 570	**(1)**	Purchases	96 270	**(1)**	
	104 970			104 970		[3]

(c) (i) Working capital calculation at 30 September 2007

	$	$		
Stock		14 300		
Debtors		9 300		
Cash at bank		6 400		
		30 000	**(1)**	
Creditors		8 700	**(1)**	
Working capital		21 300	**(1)**	[3]

(ii) Working capital calculation at 30 September 2007

	$		$		
Stock			15 730	**(1 of)**	
Debtors			10 230	**(1 of)**	
			25 960		
Creditors	9 570	**(1 of)**			
Bank Overdraft	11 530	**(1)**	21 100		
Working capital			4 860	**(1 of)**	[5]

(d) Working has decreased **(1)** by 16 440 **(1 of)**
The bank balance has become an overdraft. **(1)**
Liquidity has worsened. **(1)**
Accept ratios to indicate decrease [max 3]

[Total: 17]

6 (a)

Caster and Wheel
Trading, Profit and Loss and Appropriation Account
for the year ended 30 September 2007 **(1)**

	$			$	
Opening stock	10 300	**(1)**	Sales	227 300	**(1)**
Purchases 119 600 **(1)** + 1620 **(1)**	121 220				
	131 520				
Closing stock	9 900	**(1)**			
Cost of goods sold	121 620				
Gross profit c/d	105 680				
	227 300			227 300	
Wages and salaries			Gross profit b/d	105 680	**(1)**
(34 380 **(1)** + 3530 **(1)**)	37 910				
Rent, rates and insurance					
(17 660 **(1)** – 1120 **(1)**)	16 540				
General expenses	21 350	**(1)**			
Provision for depreciation					
– fixtures and fittings					
(20% × 21 500)	4 300	**(1)**			
Provision for doubtful debts					
(3% × 18 500)	555	**(2)**			
Net profit c/d	25 025				
	105 680			105 680	
Share of profit			Net profit b/d	25 025	**(1 of)**
– Caster 15 015 **(1 of)**					
– Wheel 10 010 **(1 of)**	25 025				
	25 025			25 025	

Accept alternative layout [18]

(b)

Caster and Wheel
Balance Sheet as at 30 September 2007

	Cost	Depr'n	NBV			Caster		Wheel		
Fixed assets					Capital	33 000	**(1)**	22 000	**(1)**	55 000
Land and buildings	52 100	---	52 100	**(1)**	Current account					
Fixtures and fittings	21 500	17 200 **(1)**	4 300	**(1 of)**	Opening balance	14 300		12 600		
	73 600	17 200	56 400		Share of profit	15 015	**(1 of)**	10 010	**(1 of)**	
						29 315		22 610		
					Drawings	17 130	**(1)**	16 240	**(1)**	
Current assets						12 185	**(1 of)**	6 370	**(1 of)**	
Stock		9 900 **(1)**								18 555
Debtors	18 500				Current liabilities					73 555
Prov'n for doubtful debts	555	17 945 **(1)**			Creditors			10 760	**(1)**	
Cash at bank		2 480 **(1)**			Accrued wages and salaries			3 530	**(1)**	
Prepaid Insurance		1 120 **(1)**	31 445							14 290
			87 845							87 845

Accept alternative layout [17]

[Total: 35]