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MARK SCHEME for the November 2005 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 students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the *Report on the Examination* for this session.

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

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(a)

King Prawn Supplies account

2005	\$	2005	\$
2 Sept Bank	1026 (1)	1 Sept Balance b/d	1080
2 Sept Discount received	54 (1)	12 Sept Purchases	600 (1)
15 Sept Purchase returns	60 (1)	23 Sept Purchases	300 (1)
30 Sept Balance c/d	<u>840</u>		<u> </u>
	<u>1980</u>		<u>1 980</u>
		1 Oct Balance b/d	840 (1) of
	+ 1 for dates		[7]

(b)

Purchases account

2005	\$	2005	\$
1 Sept Balance b/d	27 960		
4 Sept Cash	150 (1)		
12 Sept King Prawn Supplies	600 (1)		
23 Sept King Prawn Supplies	<u>300 (1)</u>	30 Sept Trading account	<u>29 010 (1) of</u>
	<u>29 010</u>		<u>29 010</u>
			[4]

(c)

Tan's Tours Ltd account

2005	\$	2005	\$
1 Sept Balance b/d	<u>40</u>	7 Sept Bad debts	<u>40 (1)</u>
	<u>40</u>		<u>40</u>
			[1]

(d)

Stock account

2005	\$	2005	\$
1 Sept Balance b/d	<u>690</u>	30 Sept Trading account	<u>690 (1)</u>
	<u>690</u>		<u>690</u>
30 Sept Trading account	130 (1)		
or			
1 Oct			
	+ 1 for dates		[3]

Total marks [15]

2 (a) Statement of Affairs as at 1 October 2004

	\$		\$
Fixed assets	48 600	Capital	56 000 (2)
Current assets	<u>20 300</u>	Current liabilities	<u>12 900</u>
	<u>68 900</u>		<u>68 900</u>

Accept alternative format

[2]

(b) Statement of Affairs as at 30 September 2005

	\$		\$
Fixed assets	39 900 (1)	Opening capital	56 000 (1) of
[53 200 – 25%]		Less: Net loss	<u>4 300 (1) of</u>
Current assets	19 400 (1)		51 700
(19 600 – 200)		Less: drawings	<u>13 700 (1)</u>
		Closing capital	38 000 (1) of
	<u>59 300</u>	Current liabilities	<u>21 300 (1)</u>
			<u>59 300</u>

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[7]

(c)

	Increase	Decrease	No change
(ii) Current assets	√ (1)		
(iii) Profit/loss			√ (1)
(iv) Working capital	√ (1)		
(v) Turnover			√ (1)

[4]

Total marks [13]

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- 3 (a) Authorised share capital
- Authorised share capital is the total capital a company may issue
 Authorised by the memorandum of association
 Authorised capital may be amended by a shareholder meeting
 Also known as registered/nominal share capital
Any 1 x 2 marks [2]
- (b) Issued share capital
- The proportion of authorised share capital issued to shareholders (2) [2]
- (c) (i) Similarity
 Both are fixed rate capital
 No voting rights
Any 1 x 2 marks
- (ii) Difference
 Debenture holders are creditors
 Preference shareholders are not creditors
 Interest is paid on debentures
 Dividends are paid to preference shareholders
Any 1 x 2 marks [4]
- (d) (i) Total dividends (in \$) proposed on ordinary shares for the year
 $\$20\,000 \times 5\% = \1000
(1) for correct formula + (1) if correct
- (ii) Total interest payable on the debentures for the year
 $\$10\,000 \times 6\% = \600
(1) for correct formula + (1) if correct
- (iii) Total dividends (in \$) payable on preference shares for the year
 $40\,000 \times \$0.25 = \$10\,000$
 $\$10\,000 \text{ of } \times 5\% = \500
(1) for correct formula + (1) if correct [6]
- (e) (i) Fixed assets
 Cost less accumulated depreciation (1)
- (ii) Stock
 Cost or net realisable value whichever is lower (1)
- (ii) Trade debtors
 Debtors less provision (1) [3]
- Total marks [17]

Page 4	Mark Scheme	Syllabus	Paper
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- 4 (a) Branch
- Gross profit/sales $\frac{(50\,000 - 30\,000)}{50\,000} \times 100$ 40%
- (1) for correct use of figures + (1) of for ratio**
- Net profit/sales $\frac{(50\,000 - 30\,000 - 12\,500)}{50\,000} \times 100$ 15%
- (1) for correct use of figures + (1) of for ratio**
- Net profit/ capital $\frac{(50\,000 - 30\,000 - 12\,500)}{37\,500} \times 100$ 20%
- (1) for correct use of figures + (1) of for ratio**
- [6]
- (b) Bough
- Net profit
 $\$80\,000 \times \frac{12.5}{100} = \$10\,000$ (2)
- Sales
 $\$10\,000$ (1) of $\times \frac{100}{10} = \$100\,000$ (1) of
- Gross profit
 $50\% \times \$100\,000$ (1) of = $\$50\,000$ (1) of
- [6]
- (c) (i) Success in trading (buying and selling)
- Bough generates a higher gross profit/sales
 Bough's gross profit is \$30 000 greater than that of Branch
 Bough is more successful
 However, the sales figure for Bough is twice as large as that for Branch
- Any 3 x 1 mark**
- [max 3]
- (ii) Success in controlling expenses
- Bough has spent a higher proportion of sales income on expenses
 Bough's expenses were \$40 000 compared with \$12 500 for Branch
 Branch is more successful
 However, Bough's larger amount spent on expenses may have been more effectively used, generating the higher turnover
- Any 3 x 1 mark**
- [max 3]
- (iii) Success in employing capital
- Branch has generated a higher proportion of net profit on capital
 It has achieved this by controlling its expenses
 It has also generated a higher proportion of sales on its capital
 Branch is more successful
- Any 2 x 1 mark**
- [max 2]

Note: Marks for comments based on own calculations

Total marks [20]

5 (a)

Trading and Profit and Loss Accounts
for the year ended 30 September 2005 (1)

	\$		\$
Stock at 1 October 2004	6 900 (1)	Sales	137 900 (1)
Purchases	41 200 (1)		
Carriage inwards	<u>9 400 (1)</u>		
	50 600		
Less: drawings	<u>4 300 (1)</u>		
	<u>46 300</u>		
	53 200		
Less: stock at 30 September 2005	<u>7 500 (1)</u>		
Cost of goods sold	45 700		
Gross profit c/d	<u>92 200</u>		
	<u>137 900</u>		<u>137 900</u>
Wages and salaries	41 500	Gross profit b/d	92 200 (1) of
[34 700(1) + 6 800(1)]		Discounts received	800 (1) of
Insurance ($\frac{12}{18} \times 1800$)	1 200 (2)		
Carriage outwards	1 300 (1)		
Rent and rates	10 800 (1)		
Motor vehicle expenses	4 200 (1)		
General expenses	22 850 (1)		
Provision for depreciation of motor vehicles			
[(32 000 – 16 000) x 50%]	8 000 (2)		
Net profit	<u>3 150</u>		
	<u>93 000</u>		<u>93 000</u>

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[19]

(b) Balance Sheet as at 30 September 2005 (1)

	\$	\$	
Fixed Assets (1)			Capital, 1 Oct 2004
Motor vehicles at cost	32 000 (1)		Net profit
Less: provision for depreciation	<u>24 000 (1) of</u>		3 150 (1) of
	8 000		27 450
Current Assets (1)			Drawings
Stock	7 500 (1)		[17 690 (1) + 4 300 (1)]
Prepayment	<u>600 (1)</u>		<u>21 990</u>
			Capital, 30 Sept 2005
		8 100	5 460 (1) of
			Current Liabilities (1)
			Trade creditors
			3 140(1)
			Bank overdraft
			700(1)
			Accrual
			<u>6 800(1)</u>
			<u>10 640</u>
		<u>16 100</u>	<u>16 100</u>

(NB. Allow marks for section headings (e.g. current assets) providing no alien items are included.)

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Total marks [16]
[35]