



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

7110/02

Paper 2

For Examination from 2010

SPECIMEN MARK SCHEME

2 hours

MAXIMUM MARK: xx

This document consists of **8** printed pages.



- 1 (a) Cheque (1) [2]
Invoice (1)
- (b) Cash discount (1)
OR
Settlement discount (1)
OR
Discount received (1) [1]
- (c) Cash book (1) [2]
Purchases journal (1)
- (d) Current liabilities (1) [1]
- (e) Improved accuracy (1)
Faster to process transactions (1)
Ability to process high volumes of information (1)
Automatic performance of reconciliations (1)
Ease of storing large amounts of data (1)
Security of data on computer records (1) [max 2]
- [Total: 8]**

2 (a)

Sally Major					
	Dr	Cash Book (bank columns)	Cr		
2009		\$	2009		\$
31 July	Balance b/d	619	31 July	Bank charges	170 (1)
31 July	Dividends	80 (1)	31 July	Balance c/d	2034
31 July	Cash (contra)	5 (1)			
31 July	Bank loan	1500 (1)			
		<u>2204</u>			<u>2204</u>
1 Aug	Balance b/d	2034 (1of)			

[5]

(b)

Sally Major
Bank Reconciliation Statement at 31 July 2006

	\$	
Balance as per cash book	2034	(1of)
Add: un-presented cheque	<u>710</u>	(1)
	2744	
Less: un-credited deposit	<u>1150</u>	(1)
Balance as per bank statement	<u>1594</u>	(1)

Allow alternative format

[4]

[Total: 9]

3 (a)

Total Trade Receivables (Debtors) account					
	\$		\$		
Revenue (Sales)	6020	Bank	4460	(1)	Credit sales
		Bad debt	140	(1)	6020 (1) + cash
		Balance c/d	1420	(1)	sales 790 (1) =
	<u>6020</u>		<u>6020</u>		6810

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[5]

(b)

Total Trade Payables (Creditors) account					
	\$		\$		
Bank	1900	(1)	Purchases	3600	(1)
Discount received	100	(1)			
Balance c/d	1600				
	<u>3600</u>			<u>3600</u>	

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[3]

(c)

Trading account for the month ended 31 July 2006					
	\$		\$		
Purchases	3600	(1)	Revenue (Sales)	6810	(1of)
Less: closing inventory (stock)	240	(1)			
	3360				
Gross profit	<u>3450</u>			<u>6810</u>	
	<u>6810</u>				

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[3]

(d)

Jenny Palmer
Journal

	Dr. \$	Cr. \$
Wages and salaries	690 (2)	
Bank		509 (2)
Tax authorities (creditor)		181 (2)

Alternative suggested answer

[6]

	Dr. \$	Cr. \$
Wages and salaries	645 (2)	
Bank		509 (2)
Tax authorities (creditor)		136 (2)
Wages and salaries	45(1)	
Tax authorities		45 (1)

Working: 120 hours × \$5 = 600

6 hours × \$7.50 = 45

645

Less Tax/Social Security (136)

Net wages 509

(e)

Jenny Palmer					
Profit and Loss Account for the month ended 31 July 2006					
	\$			\$	
Wages and salaries	690	(1of)	Gross profit	3450	(1of)
Bad debt	140	(1)	Discount		
Sundry expenses	1650	(1)	received	100	(1)
Net profit	1070				
	<u>3550</u>			<u>3550</u>	

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[5]

(f)

Jenny Palmer					
Balance Sheet at 31 July 2006					
	\$	\$		\$	\$
Fixed assets			Capital	2000	(1)
equipment	1200	(1)	Net profit	1070	(1of)
				3070	
			Less drawings	550	(1)
Current assets				2520	
Stock	240		Current liabilities		
Debtors	1420		Trade creditors	1600	(1of)
Bank	1370		Creditor – tax		
Cash	71	3101	authorities	181	(1of)
	<u>4301</u>	(2)		<u>1781</u>	
				<u>4301</u>	

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[8]

[Total: 30]

4 (a)

Jack Lightbourne

		Workings	
(i)	Gross profit/sales	$\frac{87300}{174600}$ $[174\,600 - (6350 + 89\,150 - 8200) = 87\,300]$	50% (2)
(ii)	Net profit/sales	$\frac{17460}{174600}$ $[87\,300 \text{ (of)} - 69\,840]$	10% (2)
(iii)	Rate of stock turnover	$\frac{(6350 + 8200)/2}{6350 + 89150 - 8200} = \frac{7275}{87300} \times 365$ <p>or</p> $\frac{6350 + 89150 - 8200}{(6350 + 8200)/2} = \frac{87300}{7275}$	30.4 days (2) or 12 times (2)
(iv)	Working capital (current) ratio	24 600 : 16 400	1.5 : 1 (2)
(v)	Quick ratio (acid test)	16 400 : 16 400 [24 600 – 8 200]	1 : 1 (2)

[10]

- (b) Increase the sales price for his goods (1)
 Buy goods more cheaply from suppliers (1)
 Reduce expenses (1)

[3]

- (c) (i) Stock – lower of cost and net realisable value (1)
 Trade debtors – expected collectible amount (1)

[2]

- (ii) Prudence (1)

The correct valuation base ensures profit is not overstated (1)
 and assets are not overstated (1)
 OR
 True and fair view is shown (1)

[max 3]

- (d) Accountants work with generally accepted rules such as accounting standards (2)
 Accountants are expected by profession and public to produce reliable financial information (2)
 Professional standards are more important than individual organisations (2)
 Preparing accounts for the temporary benefit of one individual or organisation, even an employer, is against these rules and training (2)
 An accountant could be penalised legally or professionally for not following agreed practice (2) [max 4]

[Total: 22]

- 5 (a) Authorised share capital is the amount a company may issue whereas called-up share capital is issued (2) [2]

- (b) Preference shares receive a fixed dividend: ordinary share dividends can vary (1)

Preference share dividend is allocated out of profit before ordinary share dividend (1)

Preference shareholders do not usually have a vote but ordinary shareholders do (1)

Preference shareholders have priority rights in liquidation before ordinary shareholders (1) [max 2]

- (c) A general reserve separates retained profits which shareholders might expect to be distributed from those which are likely to be kept long term in the company. (1)

OR

By transferring funds to a general reserve the company indicates retained profits are being reinvested long term. (1) [max 1]

- (d) Both partnerships and companies may have fixed capital (1)

Partners also have current accounts within the capital structure (1)

The capital owned by each partner is shown on a partnership balance sheet but company capital is not divided between each shareholder (2)

Retained profits and reserves are included in the capital and reserves of a company but not a partnership (2)

Different types of ownership are shown in the capital structure of a company but not a partnership (2) [max 4]

- (e) They improve comparability between financial statements internationally (1)

Fewer rules make accounts more understandable to an international audience (1)

Information is more reliable with fewer rules and practices to follow (1)

Reduces variability in accounting rules and practices internationally (1) [max 2]

[Total: 11]

(a)

Alison Brown
Manufacturing Account for the year ended 31 July 2009

	\$		\$
Cost of material consumed			
Opening inventory (stock) of raw material	34 760	(1)	
Purchases of raw material	396 300	(1)	
Carriage of raw material	1 200	(1)	
	<u>432 260</u>		
Less Closing inventory (stock) of raw material	47 290	(1)	384 970 (1)
Direct wages (198 600 + 16 550)			215 150 (1)
Prime cost			<u>600 120 (1of)</u>
Add Factory overheads			
Factory manager's salary	18 600	(1)	
Sundry factory expenses	24 360	(1)	
Provision for depreciation of factory plant and machinery (96 000 – 42 000) × 25%	13 500	(1)	56 460
Add decrease in work in progress			150
Production cost of goods completed			<u>656 730 (1)</u>

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[11]

(b)

Alison Brown
Income Statement for the year ended 31 July 2009

	\$		\$		\$
Revenue (sales)					798 200
Less sales returns					<u>6 400</u>
					791 800 (1)
Less cost of sales					
Opening inventory (stock) of finished goods			8 300	(1)	
Production cost of goods completed			656 730	(1of)	
Purchases of finished goods	11 340	(1)			
Less drawings	<u>960</u>	(1)	10 380		
			<u>675,140</u>		
Less closing inventory (stock) of finished goods			9 200	(1)	
					<u>666 210</u>
Gross profit					125 590 (1of)
Office salaries (43 330 – 1 860)			41 470	(1)	
Sundry office expenses			18 950	(1)	
Distribution costs			23 460	(1)	
Provision for depreciation Of office equipment (20% × 15 000)	3 000				
(20% × 2 400 × $\frac{3}{12}$)			3 120	(2)	
Provision for doubtful debts (2% × 84 350)			<u>1 687</u>	(1)	88 687
Net profit					<u>36 903</u>

Accept any recognisable layout

[13]

(c)

Alison Brown
Balance Sheet at 31 July 2009

	Cost	Depr'n to date	Book value	
	\$	\$	\$	
Non-current (Fixed) assets				
Land and buildings	40 000	-	40 000	(1)
Factory plant and machinery	96 000	55 500	40 500	(1of)
Office equipment	17 400	9 120	8 280	(1of)
	<u>153 400</u>	<u>64 620</u>	<u>88 780</u>	
Current assets				
Inventory (Stock)				
Raw materials	47 290			
Work in progress	4 670			
Finished goods	<u>9 200</u>	61 160		(1)
Trade receivables (Debtors)	84 350			
Less provision for doubtful debts	<u>1 687</u>	82 663		(1of)
Other receivables (Prepayments)		1 860		(1)
Cash equivalents (Bank)		<u>2 050</u>		
		<u>147 733</u>		(1of)
Current liabilities				
Trade payables (Creditors)	64 160			(1)
Other payables (Accruals)	<u>16 550</u>	80 710		(1of)
Net current assets				
(Working capital)			<u>67 023</u>	(1)
			<u>155 803</u>	
Financed by				
Equity (Capital)				
Opening balance			132 160	(1)
Plus Profit for the year (Net profit)			<u>36 903</u>	(1of)
			169 063	
Less Drawings (12 300 + 960)			<u>13 260</u>	(2)
			<u>155 803</u>	(1of)

Accept any other recognisable layout

[16]

[Total: 40]