UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2010 question paper for the guidance of teachers

7110 PRINCIPLES OF ACCOUNTS

7110/22 Paper 22 (Structured), maximum raw mark 120

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1 (a) Owner's capital $3 000 **(1)**

Capital employed $6 500 **(1)**

(b)

Item	Book of prime entry	Effects on current assets	Effect on current liabilities	Effect on capital
(i)	Cash book	–$200	No effect	–$200
(ii)	Purchases day book **(1)**	+$1 500 **(1)**	+$1 500 **(1)**	No effect **(1)**
(iii)	Sales day book **(1)**	+$800 **(1)**	No effect **(1)**	+$800 **(1)**
(iv)	Cash book **(1)**	–$4 000 **(1)**	No effect **(1)**	No effect **(1)**
(v)	Cash book **(1)**	–$1 440 **(1)**	–$1 500 **(1)**	+$60 **(1)**

[16]

(c) Trial balance of Leung as at 31 May 2010

	Dr $	Cr $	
Gross profit		6 650	**(1)**
Inventory (stock)	4 600		**(1)**
Bank loan		3 500	**(1)**
Trade receivables (debtors)	1 200		**(1)**
Trade payables (creditors)		2 100	**(1)**
Office equipment	4 000		**(1)**
Cash (bank)	1 750		**(1)**
Discount received		150	**(1)**
Rent and expenses	3 850		**(1)**
Capital		3 000	**(1)**
	15 400	15 400	

Marks awarded for description and figure. [10]

[Total: 28]

2 (a) Purchase Ledger Control Account

	$			$	
Bank/cash	47 000 **(1)**		Balance b/d	1 700 **(1)**	
Discount received	300 **(1)**		Purchases	47 900 **(1)**	
Balance c/d	2 300 **(1)**				
	49 600			49 600	[5]

(b) (i) Net pay of Susan

	$		
Salary	950	**(1)**	
Tax and social security	165		
	785	**(1)of**	[2]

(ii) Cost of employing Susan

	$		
160 × $5 =	800		
20 × $7.5 =	150		
Salary	950	**(1)of**	
Social security	90		
	1 040	**(1)of**	[2]

(c) Journal

	Dr $	Cr $		
Wages and expenses	1 040		**(1)of**	
Bank		785	**(1)of**	
Tax authorities		255	**(1)of**	[3]

(d) Tsang

Income statement (Trading and Profit and Loss Account) for the month ended 31 March 2010

	$		$	
Revenue (sales)			65 000	
Opening inventory (stock)	3 400			
Purchases	47 900	**(1)**		
	51 300			
Closing inventory (stock)	2 900			
Cost of sales			48 400	
Gross profit			16 600	**(2)1of**
Discount received			300	**(1)**
			16 900	
Wages & expenses			2 500	**(1)**
Profit for the year (net profit)			14 400	**(1)of**

Alternatives formats accepted [6]

[Total: 18]

3 **(a)** Goodwill is the value of a business over and above the value of its recorded assets. Examples would include reputation, quality of service, brand names, location, existing workforce, regular customers **(1)**.
OR
Goodwill is the difference between the value of the separate net assets of a business and the total value of the business.

(b) Money measurement [2]
Prudence [2]

(c) Calculation:

	(i) Chan		**(ii)** David		
	$		$		
Capital 31 August 2009	50 000		15 000		
Less share of goodwill	20 000	**(1)**	10 000	**(1)**	
Capital 1 September 2009	30 000	**(1)**	5 000	**(1)**	[4]

(d)

Newstart
Balance Sheet at 1 April 2009

	$		$		
Non-current (fixed) assets			33 000	**(1)**	
Current assets					
Inventory (stock)	12 000				
Trade receivables (debtors)	7 000				
	19 000	**(1)**			
Current liabilities					
Trade payables (creditors)	11 000	**(1)**			
Bank overdraft	6 000	**(1)**			
	17 000				
Net current assets			2 000		
			35 000		
Financed by:					
Capital – Chan	30 000	**(1)of**			
David	5 000	**(1)of**			
			35 000		[6]

(e) Newstart

Income statement (Profit and Loss Appropriation Account) for the year ended 31 March 20

	$	$	
Profit for the year (net profit)		10 250	
Plus interest on drawings			
Chan	750		**(1)**
David	1 000		**(1)**
		1 750	
		12 000	
Less salaries			
Chan	8 000		
David	7 000		**(1)** for both salaries
		(15 000)	
		(3 000)	
Share of losses			
Chan	(2 000)		**(1)of** if correct split
David	(1 000)		**(1)of** if correct split
		(3 000)	[5]

[Total: 21]

4 (a) (i) Cost of sales

	$	
Sales	250 000	
Less 40% Gross profit	100 000	
Cost of sales	150 000	**(3)** [3]

(ii) Raw materials (purchases)

	$	
Opening stock	10 000	
Purchases	165 000	**(2)of**
	175 000	
Closing stock	25 000	**(1)**
Cost of sales	150 000	**(1)of** [4]

(iii) Expenses

		$	
Gross profit	40%	100 000	
Expenses		80 000	**(3)**
Net profit	8%	20 000	[3]

(iv) Rate of inventory (stock) turnover

$$\frac{\text{Cost of goods sold}}{\text{Average inventory (stock)}} = \frac{150\,000\ \textbf{(of)}}{((10\,000 + 25\,000)/2)} = 8.57 \text{ times } \textbf{(3)of} \qquad [3]$$

[Total: 13]

5 (a)

Wang Yee
Manufacturing Account for the year ended 31 January 2010

	$	$		
Inventory (stock) of raw materials at 1 February 2009	14 700		(1)	
Purchases of raw materials	75 600		(1)	
	90 300			
Less: Inventory (stock) of raw materials at 31 January 2010	16 250		(1)	
Cost of raw materials consumed	74 050		(1)	
Direct factory wages ($62 140 + $1 120)	63 260		(1)	
Prime cost		137 310	(1)	
Rent	16 800		(1)	
Factory managers salary	31 500		(1)	
Provision for depreciation of plant and machinery	11 600		(1)	
		59 900		
		197 210		
Add decrease in work in progress ($23 570 – $18 780)		4 790	(1)	
Cost of production		202 000	(1)	[11]

(b)

Wang Yee
Income statement (trading and profit and loss account) for the year ended 31 January 2010

	$	$		
Revenue (sales)		342 500	(1)	
Less Revenue (sales) returns		1 250	(1)	
		341 250		
Inventory (stock) of finished goods at 1 February 2009	35 000		(1)	
Cost of production	202 000		(1)of	
Raw materials (purchases) of finished goods	15 500		(1)	
	252 500			
Inventory (stock) of finished goods at 31 January 2010	32 500		(1)	
Cost of sales		220 000		
Gross profit		121 250		
Rent	11 200		(1)	
Office salaries	41 600		(1)	
Distribution costs	28 650		(1)	
Sundry office expenses ($9 870 – $630)	9 240		(1)	
Finance costs (loan interest) ($2 400 + $800)	3 200		(2)	
Provision for depreciation of				
Office equipment ($24 000 × 20%) $4 800				
($6 000 × 20% × 4 ÷ 12) 400	5 200		(2)	
Increase in provision for doubtful debts	250		(1)	
		99 340		
Profit for the year (net profit)		21 910		[15]

(c) Wang Yee
Balance sheet as at 31 January 2010

	Cost		Depreciation to date	NBV	
	$		$	$	
Non-current (fixed) assets					
Property (land and buildings)	80 000			80 000	**(1)**
Plant and machinery	90 000		43 600	46 400	**(1)**
Office equipment	30 000		17 200	12 800	**(1)**
	200 000		60 800	139 200	
Current assets					
Inventory (stock)					
Raw materials	16 250				
Work in progress	18 780				
Finished goods	32 500				
			67 530		**(1)**
Trade receivables (debtors)	45 000				
Less: provision for doubtful debt	1 800				
			43 200		**(2)**
Other receivables (prepaid expenses)			630		**(1)**
			111 360		
Less: Current liabilities					
Trade payables (creditors)	60 700				**(1)**
Other payables (accrued expenses) ($1 120 + $800)	1 920				**(2)**
Loan repayable within 12 months (bank overdraft)	33 030				**(1)**
			95 650		
Net current assets				15 710	**(1)**
				154 910	
Non-current (long term) liabilities					
8% loan repayable 31 December 2015				40 000	**(1)**
				114 910	
Financed by:					
Capital			110 000		
Plus: Net profit			21 910		
			131 910		
Less: Drawings			17 000		
				114 910	**(1)of** [14]

[Total: 40]