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

7110/21 Paper 21 (Structured), maximum raw mark 120

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UNIVERSITY of CAMBRIDGE International Examinations

1 (a) Rahman Account

2010	$		2010	$	
April 1 Balance b/d	300	**(1)**	April 12 Sales Returns	120	**(1)**
April 6 Sales	400	**(1)**	April 30 Bank	291	**(1)**
April 18 Sales	170	**(1)**	April 30 Discount Allowed	9	**(1)**
			April 30 Balance c/d	450	
	870			870	
May 1 Balance b/d	450	**(1)of**			

[7]

(b) (i) Enables Rahman to make a profit on resale
Recognises Rahman as a regular and valued customer
Encourages Rahman to buy a greater quantity
Increase Goldy's sales volume [2]

(ii) Sales Returns Journal or Sales Returns Day Book [1]

(iii) Credit Note [1]

(c) Cash Book (Bank Columns Only)

2010	$		2010	$	
April 1 Balance b/d	650		April 12 Kwan	730	
April 8 Pacific Traders	1 500		April 17 Headland Garage	75	
April 18 Stanton & Co	96		April 15 Interest	12	**(1)**
April 16 Dividends	130	**(1)**	April 20 Balance c/d	1 559	**(1)**
	2 376			2 376	
April 21 Balance b/d	1 559	**(1)of**			

[4]

Bank Reconciliation Statement at 20 April 2010

	$	
Balance as per Bank Statement	1 538	**(1)**
Add:		
Amounts not yet credited		
Stanton & Co	96	**(1)**
	1 634	
Less:		
Cheques not presented		
Headland Garage	75	**(1)**
Balance as per cash book	1 559	**(1)of**

[4]

[Total: 19]

2 (a) Wear and tear/physical deterioration
Obsolescence/economic reasons
Depletion
Passage of time
(1) per item (Max 2) [2]

(b) (i) Land generally does not depreciate in value because it is a limited resource with an infinite life and can be used for a range of purposes. **(2)**

(ii) Inventory (Stock in trade) is not a fixed asset but is for resale. It is not in the business for a long period of time. **(2)** [4]

(c) Continuity of the business is assumed for an indefinite period. **(1)**
The cost of the non current (fixed) asset can be spread over the life of the asset. **(1)**
Non current (fixed) assets will be shown at their book value in the balance sheet and not their expected sale values. **(1)**
An estimated cost that must be included in the income statement. **(1)** [Max 2]

(d)

Property (land and buildings)	$150 000	
Less Land	$80 000	
	$70 000	× 2% = $1 400 **(1)**

(e) Disposal Account

	$			$		
Computer equipment	12 000	**(1)**	Depreciation	5 250	**(2)**	
Profit and Loss (Income Statement)	250	**(1)of**	Cash/Trade receivables	7 000	**(1)**	
	12 250			12 250		[5]

(f)
1. Capital **(1)**
2. Revenue **(1)**
3. Capital **(1)** [3]

[Total: 17]

3 (a) (i)

	$	$		
Assets				
Office equipment	16 000			
Trade receivables (debtors)	14 200			
Other receivables (prepaid expenses)	100			
Cash (bank)	3 500			
		33 800	**(1)**	
Liabilities				
Non-current liabilities (6% Loan)	10 000			
Other payables (accrued rent)	400			
		10 400	**(1)**	
Capital		23 400	**(1)**	[3]

(ii)

	$		
Receipts of consultancy fees	74 000	**(1)**	
Trade receivables (debtors) at 31 March 2010	11 000	**(1)**	
	85 000		
Trade receivables (debtors) at 1 April 2009	14 200	**(1)**	
Consultancy fees for the year	70 800		[3]

(b) Indira – Income statement (profit and loss account) for the year ended 31 March 2010

	$		$		
Consultancy fees			70 800	**(1)of**	
less					
Depreciation on equipment	3 250				
Wages	23 600				
Finance costs (loan interest)	600	**(1)**			
General expenses (12 900 + 100 – 500)	12 500	**(2)**			
Rent (9 000 – 400 + 600)	9 200	**(2)**			
			49 150		
Profit for the year (net profit)			21 650	**(1)of**	[7]

(c) Balance of assets, liabilities, trade receivables (debtors), trade payables (creditors) can readily be obtained.
Individual transactions will be recorded and can be located easily.
Accuracy of the accounts can be checked at regular intervals.
Profit can be calculated at points in the accounting year.
The accounts can be presented to the bank in order to obtain a loan or overdraft facility.
2 marks per advantage × 2 [4]

(d) **(i)** Office supervisor wages for one month:

			$		
	Basic pay	=	1 000		
	10 hours × $8	=	80		
			1 080	**(1)**	
Less	15% deductions		162	**(1)of**	
	Net payment		918	**(1)of**	[3]

(ii)

		$		
Gross pay		1 080		
Plus	10% contribution	108	**(1)of**	
	Cost of employment	1 188	**(1)of**	[2]

[Total: 22]

4 **(a)** **(i)** Gross profit to revenue (sales) percentage $\frac{70\,000}{200\,000\ \mathbf{(1)}} \times 100$ **(1)** = 35% **(1)** [3]

(ii) Working capital ratio (current ratio) $\frac{60\,000 + 16\,000\ \mathbf{(1)}}{35\,000 + 5\,000\ \mathbf{(1)}}$ = 1.9:1 **(1)** [3]

(iii) Quick ratio (acid test) $\frac{16\,000\ \mathbf{(2)}}{35\,000 + 5\,000\ \mathbf{(1)}}$ = 0.4:1 **(1)** [4]

(iv) Profit for the year (net profit) to capital percentage $\frac{5\,000}{100\,000\ \mathbf{(1)}} \times 100$ **(2)** = 5% **(1)** [4]

(b) **(i)** At 0.4:1 this is low for a business buying and selling goods on credit.
Inventory (stock) levels are high resulting in high trade payables (creditors).
The business has no cash available to meet trade payables (creditors).
2 marks for one point [2]

(ii) At 5% the level of return is low when compared to the risk of the business.
2 marks [2]

(c) **(i)** Reduced selling price
Increased purchase costs of goods
One point × 2 marks [2]

(ii) Higher levels of inventory (stock)
Difficulty in collecting debts.
Increased expenses reducing cash available to pay trade payables (creditors).
One point × 2 marks [2]

[Total: 22]

5 SGC Ltd

Income statement (trading and profit and loss account) for the year ended 30 April 2010

	$	$		
Revenue (sales)		370 000	**(1)**	
Inventory (stock) of finished goods at 1 May 2009	48 500		**(1)**	
Raw materials (purchases) of finished goods	178 000		**(1)**	
Less Raw materials (purchase) returns	9 000		**(1)**	
Plus Carriage inwards	16 500		**(1)**	
	234 000			
Less Inventory (stock) of finished goods at 30 April 2010	57 000		**(1)**	
Cost of sales		177 000		
Gross profit		193 000		
Less				
Office expenses (19 750 – 450)	19 300		**(2)**	
Office salaries (59 300 + 1 800)	61 100		**(2)**	
Provisions for depreciation –				
Computer equipment	13 000		**(1)**	
Office equipment	8 000		**(1)**	
Other operating (Sundry) expenses	9 800		**(1)**	
Advertising and marketing	24 000		**(1)**	
Finance costs (debenture interest) (3 000 + 3 000)	6 000		**(2)**	
Increase in provision for doubtful debts	600		**(1)**	
		141 800		
Profit for the year (Net profit)		51 200		[17]
Less Appropriations:				
Transfer to the General Reserve	20 000		**(1)**	
8% Preference dividend	16 000		**(1)**	
Ordinary dividend	10 000		**(1)**	
		46 000		
Retained profit for the year		5 200		
Retained profit brought forward		1 300	**(1)**	
Retained profit carried forward		6 500	**(1)**	[5]

Balance Sheet as at 30 April 2010

	$ Cost	$ Depr'n	$ NBV	
Non-current (fixed) assets				
Property (Land and buildings)	250 000		250 000	**(1)**
Computer equipment	80 000	41 000	39 000	**(1)**
Office fixtures and fittings	40 000	23 000	17 000	**(1)**
	370 000	64 000	306 000	
Current assets				
Inventory (stock)		57 000		**(1)**
Trade receivables (debtors)	42 000			
Less: provision for doubtful debts	(2 100)			
		39 900		**(2)**
Other receivables (Prepaid office expenses)		450		**(1)**
Cash (bank)		3 450		**(1)**
		100 800		
Less:				
Current liabilities (amounts due within 12 months)				
Trade payables (creditors)		(35 500)		**(1)**
Other payables: (accrued office salaries)		(1 800)		**(1)**
(debenture interest)		(3 000)		**(2)**
Net current assets		(40 300)	60 500	**(1)**
			366 500	
Less				
Non-current liabilities (12% Debentures repayable 31.12.2020)			(50 000)	**(1)**
			316 500	
Financed by:				
Share capital (authorised and issued share capital)				
100 000 $0.50 Ordinary shares			50 000	**(1)**
200 000 $1.00 8% preference shares			200 000	**(1)**
Reserves				
General reserve (40 000 + 20 000)			60 000	**(1)**
Unappropriated profit and loss 1 May 2009			6 500	**(1)**
			316 500	

Suitable alternative layouts accepted [18]

[Total: 40]