UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2006 question paper

7110 PRINCIPLES OF ACOUNTS

7110/02 Paper 2 (Structures), 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 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.

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1 (a) Rent Received account

2006		$		2006		$		
30 Sept	Profit and Loss **(1)**	7860	**(1)**	23 Sept	Balance b/d	7360	**(1)**	
30 Sept	Balance c/d	480		29 Sept	Bank	980	**(1)**	
		8340				8340		
				1 Oct	Balance b/d	480	**(1 of)**	[4]

(b) Justine Stihl account

2006		$		2006		$		
23 Sept	Balance b/d	180		27 Sept	Bad debts **(1)**	180	**(1)**	
		180				180		[2]

(c) Bad Debts account

2006		$		2006		$		
27 Sept	Justine Stihl	180	**(1)**	30 Sept	Profit and Loss **(1)**	180	**(1)**	
		180				180		[3]

(d) (i) Prudence **(1)** was used in writing off the bad debt.
The amount will not reasonably be recovered. **(1)**
This avoids overstating profits **(1)** and asset values. **(1)**
1 for naming concept
1 per point, max 2 [max 3]

(ii) Matching **(1)** is used to recognise that the money received for advanced rent should be recorded in the following year's Profit and Loss Account **(1)** and that the advanced receipt should be shown as a liability **(1)** in the Balance Sheet. **(1)**
1 for naming concept
1 per point, max 2 [max 3]

Accept other appropriate comment.

[Total: 15]

2 (a)

Nepsa Ltd
Profit and Loss Appropriation Account for the year ended 30 September 2006

			$			$
Transfer to General Reserve			50 000 **(1)**	Net profit b/d		45 000 **(1)**
Preference dividends:				Balance b/f		65 700 **(1)**
10% preference	10 000	**(1)**				
8% preference	6 400	**(1)**	16 400			
Ordinary dividends:						
Interim	8 000	**(1)**				
Proposed/final	16 000	**(1)**	24 000			
Balance c/f			20 300 **(1 of)**			
			110 700			110 700

Marks for figures and detail
Accept alternative format [8]

(b) Difference
Preference shares have fixed rate dividends.
The dividend rate for ordinary shares is determined by the directors.
Preference dividends are paid before ordinary dividends.

Difference
If no dividend is declared in a year, it may accumulate and be paid in future for preference shares.
If no dividend is declared in a year, ordinary shareholders will not receive it in future.

Difference
Preference shares are less risky that ordinary shares.
Ordinary shareholders are the risk bearers.

Difference
Ordinary shareholders have rights to vote.
Preference shareholders generally have no voting rights.

Difference
Preference shareholders have preferential rights in liquidation.
Ordinary shareholders are generally paid last, if at all, in liquidation.

1 mark per point, max 4 [max 4]

[Total: 12]

3 **(a)** **(i)** Cost of sales

60% x $100 000 = $60 000 **(2)** [2]

(ii) Purchases

	$	
Opening stock	4 000	**(1)**
Purchases	64 000	**(1)** ***if no alien items***
	68 000	
Closing stock	8 000	**(1)**
Cost of sales	60 000	

[3]

(iii) Expenses

Gross profit/sales	$100 000 x 40% =	40 000	
Expenses		30 000	**(1)**
Net profit/sales	$100 000 x 10% =	10 000	**(1)**

[2]

(b) Net profit as a percentage of capital
OF

$$\frac{\text{Net profit}}{\text{Capital}} = \frac{10\ 000}{50\ 000} \times \frac{100}{1}$$ = 20% **(2 of)** [2]

(c) Rate of stock turnover

$$\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{60\ 000\ \textbf{(1 of)}}{\left(\frac{4000+8000}{2}\right)\textbf{(1)}} = 10 \text{ times}$$ **(1 of)** if no alien items [3]

(d) The change would affect either the closing stock level, increasing the closing stock **(1)** or lead to a lower level of purchases **(1)** or cost of sales. **(1)** [max 2]

(e) Increase in storage costs (2)
Risk of obsolescence (2)
More money tied up in stock (2)
Risk of theft (2)
Damage in store a possibility (2)
Rejection in liquidity
Accept other appropriate comments [max 4]

[Total: 18]

4 **(a)** **(i)** Land does not wear out so there is no need to match cost with use. **(2)**
Land may go up in value. **(2)** [max 2]

(ii) Stock is current asset. It is expected to be used within a year so there is no asset to depreciate over several years. **(2)**
Bought for resale. [2]

(b) **(i)** Loose tools are usually represented by a large number of small value items. They are difficult to track and account for separately.

Loose tools may or may not remain in the business for more than a year. It is cost-effective to value annually as opposed to conventional depreciation.

1 point x 2 marks [max 2]

(ii) \$5000 + \$1000 – \$4000 = \$2000 **(2)** [2]

(c) **(i)** Buildings

Year ended 31 August 2005 – \$2000 **(2)**
Year ended 31 August 2006 – \$2000 **(1 of)** [3]

(ii) Plant and equipment

Year ended 31 August 2005 – \$30 000 **(2)**
Year ended 31 August 2006
(\$60 000 – \$30 000) x 50% = \$15 000 **(2)** [4]

(d) Plant and Equipment Disposal account

	$			$	
Plant and equipment	60 000	**(1)**	Bank/cash/debtor	12 000	**(1)**
			Provision for depreciation/ depreciation	45 000	**(1 of)**
			Loss/P&L	3 000	**(1 of)**
	60 000			60 000	

Marks for figures and detail [5]

[Total: 20]

5 (a)

Trading and Profit and Loss Accounts
for the year ended 30 September 2006 **(1)**

	$			$	
Stock at 1 October 2005	13 400	**(1)**	Sales	306 000	
Purchases	147 600	**(1)**			
Carriage inwards	12 800	**(1)**			
	160 400				
Less: drawings	1 300	**(1)**			
	159 100				
	172 500				
Less: stock at 30 September 2006	14 100	**(1)**			
Cost of goods sold	158 400	**(1)**			
Gross profit c/d	147 600				
	306 000			306 000	
Carriage outwards	28 300	**(1)**	Gross profit b/d	147 600	**(1 of)**
Wages and salaries [51 100 **(1)** + 1900 **(1)**]	53 000				
Rent, rates and insurance [6900 **(1)** – 400 **(1)**]	6 500				
Advertising costs	11 800				
Motor vehicle expenses	2 700				
Office expenses	17 400				
Provision for depreciation of motor vehicles	3 100	**(1)**			
Increase in provision for doubtful debts	400	**(2)**			
Interest on loan	150	**(2)**			
Net profit	24 250	**(1)**			
	147 600			147 600	

Accept alternative format [19]

(b)

Balance Sheet as at 30 September 2006 **(1)**

	$		$		$			$	$	
Fixed Assets							Capital		35 000	**(1)**
Motor vehicles at cost					15 500	**(1)**	Net profit		24 250	**(1 of)**
Less: provision for depreciation					6 200	**(1 of)**			59 250	
					9300		Drawings [12 320 **(1)** + 1300 **(1)**]		13 620	
Current Assets									45 630	
Stock			14 100	**(1)**			Long term liability			
Debtors	38 000	**(1)**					Long term loan		5 000	**(1)**
Less: provision for doubtful debts	760	**(1 of)**	37 240				Current Liabilities Creditors	15 000 **(1)**		
Cash at bank			7 140	**(1)**			Accrual	1 900 **(1)**		
Prepayment			400	**(1)**			Interest on loan	150 **(1)**		
					58 880		Drawings		17 550	
					68 180				68 180	

Accept alternative format

[16]

[Total: 35]