

MARK SCHEME for the October/November 2012 series

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, 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, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a) The stationery is prepaid by \$60/Asir has a stock of stationery worth \$60. (1) [1]

(b)

| Stationery account | | | | |
|--------------------|--------------|----------------|--------------------------|------------|
| | | \$ | \$ | |
| July 1 | Balance b/d | 60 | Sep 3 Rapid Office | 45 (1) |
| Aug 18 | Rapid Office | 450 (1) | Sept 30 Income statement | 390 (1) |
| Aug 20 | Cash | <u>150 (1)</u> | Sept 30 Balance c/d | <u>225</u> |
| | | <u>660</u> | | <u>660</u> |
| Oct 1 | Balance b/d | 225 (1of) | | |

| Rapid Office Supplies account | | | | |
|-------------------------------|--------------|------------|--------------------|---------------|
| | | \$ | \$ | |
| July 30 | Bank | 384 | July 1 Balance b/d | 400 |
| July 30 | Discount rec | 16 (1) | Aug 18 Stationery | 450 (1) |
| Sept 3 | Stationery | 45 (1) | | |
| Sept 30 | Balance c/d | <u>405</u> | | |
| | | <u>850</u> | | <u>850</u> |
| | | | Oct 1 Balance b/d | 405 (1of) [9] |

(c) (i) Invoice (1)

(ii) Credit note (1) [2]

(d)

| | \$ |
|------------------|-----------|
| Trial balance | 615 (1) |
| Income statement | 390 (1of) |
| Balance sheet | 225 (1of) |

[3]

(e) (i) Current assets (1)

(ii) Current liabilities (1) [2]

(f) (i) Asir will match his revenue to his expenses for the period therefore will only transfer the value of stationery that he has used not the value that he has purchased. (2)

(ii) Accruals/Matching concept (1) [3]

[Total: 20]

| | | | |
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2 (a) (i) Depreciation is the continuing diminution in value of a non-current asset (2) [2]

(ii) Wear and tear
 Obsolescence
 Depletion
 Passage of time
 (1) × 2 points [2]

(b) Apportions an equal amount of depreciation to each year of ownership
 More appropriate to fixed assets that depreciate by an equal amount each year
 (2) × 1 point [2]

(c) (i) Equipment provision for depreciation account

| | | | |
|--------------------|---------------|-------------------------|---------------------|
| | \$ | | \$ |
| Jan 31 Disposal | 16 800 (1) | Sept 1 Balance b/d | 24 000 (1) |
| Aug 31 Balance c/d | <u>20 600</u> | Aug 31 Income statement | <u>13 400 (1)</u> |
| | <u>37 400</u> | Sept 1 Balance b/d | <u>20 600 (1of)</u> |

(ii) Equipment disposal account

| | | | |
|------------------|---------------|-------------------------------|-------------------|
| | \$ | | \$ |
| Jan 31 Equipment | 28 000 (1) | Jan 31 Provision for deprec'n | 16 800 (1) |
| | <u>28 000</u> | Jan 31 Bank | 10 000 (1) |
| | | Aug 31 Income statement | <u>1 200 (1)</u> |
| | | | <u>28 000</u> [8] |

(d) Balance sheet (extract) at 31 August 2012

| Non-current assets | Cost | Accumulated depreciation | NBV |
|--------------------|------------------|--------------------------|--------------------|
| | \$ | \$ | \$ |
| Equipment | 67 000 (1) | 20 600 (1) | 46 400 (1of) |
| Office computer | <u>8 600 (1)</u> | <u>6 350 (1)</u> | <u>2 250 (1of)</u> |
| | <u>75 600</u> | <u>26 950</u> | 48 650 [6] |

[Total: 20]

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- 3 (a) Sandar Manufacturing
Manufacturing Account for the year ended 30 September 2012
- | | \$ | \$ | |
|---|---------------------|----------------------|------|
| Opening inventory of raw materials | 17 500 (1) | | |
| Purchases of raw materials | 82 600 (1) | | |
| Carriage on raw materials | <u>7 200 (1)</u> | | |
| | 107 300 | | |
| Closing inventory of raw materials | <u>16 300 (1)</u> | | |
| Cost of raw materials consumed | | 91 000 (1of) | |
| Production wages | 75 000 (1) | | |
| Royalties | <u>9 000 (1)</u> | | |
| | | <u>84 000</u> | |
| PRIME COST | | 175 000 (1of) | |
| Factory overheads: | | | |
| Production manager's salary | 20 500 (1) | | |
| Rent, rates and power | 18 400 (1) | | |
| General factory expenses (15 200 + 400) | 15 600 (1) | | |
| Premises maintenance | 28 000 (1) | | |
| Depreciation on factory machinery | <u>7 500 (1)</u> | | |
| | | 90 000 | |
| Work in progress: | | | |
| At 1 October 2011 | 24 000 (1) | | |
| At 30 September 2012 | <u>(29 000) (1)</u> | | |
| | | <u>(5 000)</u> | |
| PRODUCTION COST | | <u>260 000 (1of)</u> | [16] |
- (b) A cost which can be directly linked to the product being manufactured. (2) [2]
- (c) Raw materials
Production wages
Royalties
(2) × 1 point [2]
- [Total: 20]
- 4 (a) (i) Revenue (sales) $\frac{120\,000}{25} \times \frac{125}{25} = \$600\,000$ (3) [3]
- (ii) Net profit/ sales percentage $\frac{48\,000}{600\,000} \times 100 = 8\%$ (3) [3]
- (iii) Net profit / capital percentage $\frac{48\,000}{320\,000} \times 100 = 15\%$ (3) [3]
- (iv) Quick ratio (acid test) $\frac{60\,000}{60\,000} = 1:1$ (3) [3]
- (b) Quick ratio (acid test) does not contain inventory (1)
Inventory may be difficult or take time to sell (1) [2]

| | | | |
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(c) The cash level is low at \$5 000 and probably insufficient (1)
 Maya has to repay the \$35 000 loan in 1 month (2)
 Any other valid point [3]

(d) Introduce additional capital
 Raise a long term loan
 Sell surplus non-current assets
 Press trade receivables for swift payment/ offer a cash discount
 Sell some inventory for cash/ hold a sale of some inventory
 Extend trade payables payment period
 Any other valid point
 (1) × 3 points [3]

[Total: 20]

5 (a)

| Maria | | \$ | \$ |
|---|-----------------|------------------|------------|
| Income Statement for the year ended 30 September 2012 | | | |
| | \$ | | |
| Revenue | | 365 000 | |
| Returns | | <u>8 900</u> | |
| | | 356 100 | (1) |
| Inventory 1 October 2011 | 33 500 | | (1) |
| Purchases (135 000 + 7 500) | <u>142 500</u> | | (2) |
| | 176 000 | | |
| Returns | <u>(4 250)</u> | | (1) |
| | 171 750 | | |
| Inventory 30 September 2012 | <u>(36 450)</u> | | (1) |
| Cost of sales | | <u>135 300</u> | (1) |
| Gross profit | | 220 800 | |
| Plus | | | |
| Discount received | 7 300 | | (1) |
| Decrease in Provision for doubtful debts | <u>3 400</u> | | (2) |
| | | <u>10 700</u> | |
| | | 231 500 | |
| Less | | | |
| Loan interest (2 000 + 1 000) | 3 000 | | (1) |
| Distribution expenses | 18 630 | | (1) |
| Computer repairs (19 150 + 1 700) | 20 850 | | (1) |
| General running expenses (31 600 – 4 000) | 27 600 | | (1) |
| Salaries and wages (86 700 – 5 200) | 81 500 | | (1) |
| Marketing costs | 14 000 | | (1) |
| Discount allowed | 22 400 | | (1) |
| Depreciation: | | | |
| Buildings | 2 000 | | (1) |
| Fixtures | 4 800 | | (2) |
| Computers | <u>7 000</u> | | (1) |
| | | <u>(201 780)</u> | |
| Profit for the year | | <u>29 720</u> | (1of) [22] |

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Balance Sheet at 30 September 2012

| | Cost | Accumulated Depreciation | NBV | |
|------------------------------------|----------------|-----------------------------|-----------------|-------------|
| | \$ | \$ | \$ | |
| <u>Non current assets</u> | | | | |
| Land and buildings | 150 000 | 12 000 | 138 000 | (2) |
| Fixtures and fittings | 32 000 | 23 800 | 8 200 | (2of) |
| Computer equipment | <u>40 000</u> | <u>19 000</u> | <u>21 000</u> | (1of) |
| | <u>222 000</u> | <u>54 800</u> | 167 200 | |
| <u>Current assets</u> | | | | |
| Inventory | | 36 450 | | (1) |
| Trade receivables | 60 000 | | | |
| Less Provision for doubtful debts | <u>3 000</u> | | | |
| | | 57 000 | | (2) |
| Other receivables | | 5 200 | | (1) |
| Bank | | <u>14 070</u> | | (1) |
| | | 112 720 | | |
| Less | | | | |
| <u>Current liabilities</u> | | | | |
| Trade payables (31 000 + 7 500) | | 38 500 | | (2) |
| Other payables (1 700 + 1 000) | | <u>2 700</u> | | (2) |
| | | (41 200) | | |
| Net current assets | | | <u>71 520</u> | (1of) |
| | | | 238 720 | |
| <u>Non current liabilities</u> | | | | |
| 8% Bank loan | | | <u>(50 000)</u> | (1) |
| | | | <u>188 720</u> | |
| Financed by: | | | | |
| Capital at 1 October 2011 | | | 180 000 | |
| Profit for the year | | | <u>29 720</u> | (1of) |
| | | | 209 720 | |
| Drawings | | | <u>(21 000)</u> | |
| | | | <u>188 720</u> | (1of) [18] |
| | | | | [Total: 40] |