
PRINCIPLES OF ACCOUNTS**7110/22**

Paper 2 Structured

October/November 2017

MARK SCHEME

Maximum Mark: 120

Published

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This document consists of **13** printed pages.

Question	Answer										Marks																																																																																							
1(a)	Cash Book (extract)										7																																																																																							
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1(f)(i)	Running balance account (1)		1								
1(f)(ii)	The balance of the account is always available (1) Easily understood by non-specialists (1) Max 1 Accept other valid points		1								

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2(a)	<p style="text-align: center;">General journal</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Dr</th> <th style="text-align: center;">Cr</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Suspense</td> <td style="text-align: right;">4900 }</td> <td></td> </tr> <tr> <td>Rent payable</td> <td></td> <td style="text-align: right;">4900 (1)</td> </tr> <tr> <td>Suspense</td> <td style="text-align: right;">4900 } (1)</td> <td></td> </tr> <tr> <td>Rent receivable</td> <td></td> <td style="text-align: right;">4900 (1)</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Suspense</td> <td style="text-align: right;">900 (1)</td> <td></td> </tr> <tr> <td>General expenses</td> <td></td> <td style="text-align: right;">900 (1)</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">3400 (1)</td> <td></td> </tr> <tr> <td>Suspense</td> <td></td> <td style="text-align: right;">3400 (1)</td> </tr> </tbody> </table>		Dr	Cr		\$	\$	Suspense	4900 }		Rent payable		4900 (1)	Suspense	4900 } (1)		Rent receivable		4900 (1)				Suspense	900 (1)		General expenses		900 (1)				Purchases	3400 (1)		Suspense		3400 (1)	7
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Question	Answer						Marks										
3(a)	Subscriptions account						6										
		Date	Details	\$	Date	Details	\$										
		2016			2016												
		Oct 1	Balance b/d	200	Oct 1	Balance b/d	320										
		2017			2017	Bank	7600 (1)										
		Sept 30	Income and expenditure(1)	7800 (1)OF	Sept 30	Irrecoverable/Bad debts	200 (1)										
		30	Balance c/d	<u>400</u>	30	Balance c/d	<u>280</u>										
				<u>8400</u>			<u>8400</u>										
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3(b)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="459 754 1137 805" style="width: 50%;">Receipts and payments account</th> <th data-bbox="1137 754 1805 805" style="width: 50%;">Income and expenditure account</th> </tr> </thead> <tbody> <tr> <td data-bbox="459 805 1137 888">Contains an opening and closing balance (1)</td> <td data-bbox="1137 805 1805 888">No balances surplus/deficit at end is transferred to the accumulated fund (1)</td> </tr> <tr> <td data-bbox="459 888 1137 940">Contains only cash receipts or payments (1)</td> <td data-bbox="1137 888 1805 940">Contains non-cash items such as depreciation (1)</td> </tr> <tr> <td data-bbox="459 940 1137 1023">Contains only actual cash receipts or payments (1)</td> <td data-bbox="1137 940 1805 1023">Adjusted for accruals and prepayments (1)</td> </tr> <tr> <td data-bbox="459 1023 1137 1074">Contains both capital and revenue expenditure (1)</td> <td data-bbox="1137 1023 1805 1074">Does not contain capital expenditure (1)</td> </tr> </tbody> </table>						Receipts and payments account	Income and expenditure account	Contains an opening and closing balance (1)	No balances surplus/deficit at end is transferred to the accumulated fund (1)	Contains only cash receipts or payments (1)	Contains non-cash items such as depreciation (1)	Contains only actual cash receipts or payments (1)	Adjusted for accruals and prepayments (1)	Contains both capital and revenue expenditure (1)	Does not contain capital expenditure (1)	Max 4
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3(d)	A more realistic depreciation expense used is charged to income statement/income and expenditure account (1) Value in statement of financial position is realistic market value (1) It is simple and straight forward to use (1) Avoids the need for keeping detailed records. (1) Max 2 Other valid answers accepted	2

Question	Answer	Marks																
4(a)(i)	Revenue $240\,000 \times \frac{100}{75}$ (1) = 320 000 (1)	2																
4(a)(ii)	Purchases $240\,000 + (33\,500 - 19\,700)$ = 253 800 (1) (1)	2																
4(a)(iii)	Profit for the year $80\,000$ (1) – 65 000 = 15 000 (1)	2																
4(b)	<table border="1"> <thead> <tr> <th></th> <th>Workings</th> <th>31 July 2017</th> <th>31 July 2016</th> </tr> </thead> <tbody> <tr> <td>Profit margin (profit for the year to revenue)</td> <td>$\frac{15\,000}{320\,000} \times 100 =$ (1)OF</td> <td>4.69% (1)OF</td> <td>2.31%</td> </tr> <tr> <td>Return on capital employed (ROCE)</td> <td>$\frac{15\,000}{70\,000 + 50\,000} \times 100$ (1)OF</td> <td>12.50% (1)OF</td> <td>20.00%</td> </tr> <tr> <td>Working capital ratio (current ratio)</td> <td>$\frac{33\,500 + 50\,500}{25\,000}$ (1)</td> <td>2.10:1 (1)</td> <td>1.25:1</td> </tr> </tbody> </table>		Workings	31 July 2017	31 July 2016	Profit margin (profit for the year to revenue)	$\frac{15\,000}{320\,000} \times 100 =$ (1)OF	4.69% (1)OF	2.31%	Return on capital employed (ROCE)	$\frac{15\,000}{70\,000 + 50\,000} \times 100$ (1)OF	12.50% (1)OF	20.00%	Working capital ratio (current ratio)	$\frac{33\,500 + 50\,500}{25\,000}$ (1)	2.10:1 (1)	1.25:1	6
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Question	Answer	Marks
4(c)	<p>The profit margin has improved/increased (1) OF This may be due to increasing prices (1), change in product mix (1), controlling expenses (1), cheaper suppliers/lower cost of sales (1) OF Return on capital employed has deteriorated (1) of This may be due to an increase in the capital employed (1) OF such as the bank loan (1) OF Profit reduced (1) OF This may be due to decrease in profit for the year due to loan interest (1) OF Max 2 points x (2 marks) (1 mark) for stating and (1 mark) for development</p> <p>Own figures apply. Other valid answers accepted</p>	4
4(d)	<p>The working capital ratio is sufficient (1) OF It is slightly above the recommended level of 2:1 (1) OF</p>	2
4(e)	<p>Introduce more capital in cash Obtain a further long-term loan Reduce drawings Reduce expenses Sale of non-current assets Other acceptable answers accepted 2 points x (1 mark)</p>	2

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5(c)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Current liabilities</td> <td style="width: 20%;"></td> <td style="width: 20%;"></td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">23 150 (1)</td> </tr> <tr> <td>Other payables (1 150(1) + 1 500(1))</td> <td></td> <td style="text-align: right;">2 650</td> </tr> <tr> <td>Bank overdraft (10 600(1) – 500(1))</td> <td></td> <td style="text-align: right;">10 100</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>35 900</u></td> </tr> <tr> <td>Total capital and liabilities</td> <td></td> <td style="text-align: right;"><u><u>216 500</u></u></td> </tr> </table> <p>Suitable alternative layouts accepted</p>	Current liabilities			Trade payables		23 150 (1)	Other payables (1 150(1) + 1 500(1))		2 650	Bank overdraft (10 600(1) – 500(1))		10 100			<u>35 900</u>	Total capital and liabilities		<u><u>216 500</u></u>	
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