

MARK SCHEME for the October/November 2008 question paper

7110 PRINCIPLES OF ACCOUNTS

7110/02

Paper 2 (Structured), maximum raw mark 100

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.

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.

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1 (a)

Jason Moore
Trial Balance at 31 October 2008

| | \$ | \$ | |
|---|---------------|---------------|-----|
| Provision for doubtful debts | | 150 | |
| Capital | | 16 550 | |
| Drawings | 8 000 | | |
| Plant and equipment | 18 000 | | |
| Provision for depreciation of plant and equipment | | 3 000 | |
| Stock | 4 000 | | |
| Debtors | 3 000 | | |
| Creditors | | 2 000 | |
| Cash | 1 500 | | |
| Sales | | 40 000 | |
| Purchases | 21 000 | | |
| Sundry expenses | <u>6 200</u> | | |
| | <u>61 700</u> | <u>61 700</u> | (3) |

(Three marks for both correct totals; one mark if suspense account inserted) [3]

(b) Confirms arithmetical accuracy of the double-entry (1)
Acts as a basis from which to prepare final accounts (1) [2]

(c) Error of omission (1) – complete omission of a transaction (1)
Error of commission (1) – correct amount entered in incorrect account of correct class (1)
Error of principle (1) – item entered into incorrect class of account (1)
Compensating error (1) – errors cancel each other out (1)
Error of original entry (1) – item entered at incorrect amount in both accounts (1)
Error of reversal (1) – debit entry posted as credit and vice versa (1)
Transposition error (1) – error in sequence of numbers in both accounts (1)
Any 3 points, 2 marks each [max 6]

(d)

| | Dr | Cr | |
|---------------------|----------|----------|-----|
| | \$ | \$ | |
| Purchases | 3000 (1) | | |
| Plant and equipment | | 3000 (1) | |
| Creditors | 1000 (1) | | |
| Cash | | 1000 (1) | [4] |

(e) (i) Running balance format (1)
The balance is always available (1) [2]

(ii) The trial balance figure represents the balance before the final accounts are prepared. (1)
The final ledger balance is after preparation (1)
OR
The end of year transactions are posted after the final accounts is prepared (1) resulting
in the final ledger account balance (1) [2]

[Total: 19]

| | | | |
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2 (a) Sales Ledger Control account

| | | | |
|-----------------|-------------------|------------------|----------------|
| | \$ | | \$ |
| Balance b/d | 33 200 | (1) Bank | 135 000 (1) |
| Sales | 163 100 | Bad debts | 5 500 (1) |
| | | Discount allowed | 7 200 (1) |
| | <u>196 300</u> | Balance c/d | 48 600 (1) |
| | | | <u>196 300</u> |
| Sales on credit | 163 100 | | |
| Cash sales | <u>56 000</u> (1) | | |
| | 219 100 (1of) | | |

Accept any format [7]

(b) Gross profit 40% × \$219 100 (of) = \$87 640 (1of)
 Net profit 5% × \$219 100 (of) = \$10 955 (1of) [2]

(c) (i) 25 × 50 × \$6 = \$7 500 (1)
 30 × 50 × \$8 = \$12 000 (1)
\$19 500 (1of) [3]

(ii) Social security/national insurance (1)
 Pension contributions (1) [max 1]

(d) A 10% increase in pay would add \$1950 to basic payroll costs (1)
 Additional costs would also accrue on additional pay (1)
 Tina would need information to ensure she could meet additional costs (1)
 She would need to evaluate the effect of the increase on profits (1)
 She would need to consider if changes (increased prices) are needed to pay additional wages (1)
 She would need to think about effects on future plans (1)
 Tina would need to ensure she has enough cash to pay additional wages (1)
 She would need to consider if the business would still be earning sufficient profits to meet her needs (1)
Any 3 points, 2 marks each
(accept other appropriate comments) [max 6]

[Total: 19]

| | | | |
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3 (a) Calculation of accumulated fund

| | | |
|--------------------------|--------------|------------|
| | \$ | |
| Subscriptions in arrears | 130 | |
| Stock of refreshments | 340 | |
| Balance at bank | <u>740</u> | |
| | 1 210 | |
| Subscriptions in advance | <u>210</u> | |
| Accumulated fund | <u>1 000</u> | (2) |

Accept any presentation

[2]

(b) Avalon Social Club
Subscriptions account

| | | | | | | | |
|--------|------------------------------|-------------|-------|-------------|-------------|-------------|-----|
| | \$ | | | \$ | | | |
| 2007 | | | 2007 | | | | |
| 1 Nov | Balance b/d | 130 | (1) | 1 Nov | Balance b/d | 210 | (1) |
| 2008 | | | 2008 | | | | |
| 31 Oct | Balance c/d | 90 | (1) | Various | Bank | 1710 | (1) |
| 31 Oct | Income & expenditure account | <u>1700</u> | (1) | | | <u>1920</u> | |
| | | <u>1920</u> | | | | | |
| | | | 2008 | | | | |
| | | | 1 Nov | Balance b/d | | 90 | |

Accept running balance format

[5]

(c) Profit made on sale of refreshments

| | | | |
|-----------------------|-------------|-------|-------------|
| | \$ | | |
| Opening stock | 340 | Sales | 4970 |
| Purchases | <u>3630</u> | | |
| | 3970 | | |
| Less: closing stock | <u>290</u> | | |
| Cost of goods sold | 3680 | | |
| Gross profit on sales | <u>1290</u> | | |
| | <u>4970</u> | | <u>4970</u> |

Accept any presentation

[2]

(d) Avalon Social Club
Income and Expenditure account for the year ended 31 October 2008

| | | | | |
|-----------------|-------------|------------------------------------|-------------|--------------|
| | \$ | | \$ | |
| Rent and rates | 1400 | Subscriptions | 1700 | (1of) |
| Insurance | 300 | Profit on sale of refreshments | 1290 | (1of) |
| Sundry expenses | <u>1300</u> | Deficit of expenditure over income | <u>10</u> | (1of) |
| | <u>3000</u> | | <u>3000</u> | |
| | (1) | | | |

Accept vertical format

[4]

| | | | |
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- (e) Matching/accruals is used to calculate the amount of subscriptions members should pay for the year to 31 October (2)
This is irrespective of the amounts actually paid (2)
It recognises amounts owed/owing for past and previous periods (2) [max 4]

[Total: 17]

- 4 (a) Agrippa Ltd
Appropriation account for the year ended 31 October 2008

| | | | | |
|---------------------------|---------------|-----|-------------|---------------|
| | \$ | | | \$ |
| General reserve | 20 000 | (1) | Balance b/d | 50 000 (1) |
| Preference share dividend | 1 500 | (1) | Net profit | 7 000 (1) |
| Ordinary share dividend: | | | | |
| Interim | 600 | (1) | | |
| Proposed | <u>1000</u> | (1) | | |
| | 1 600 | | | |
| Balance c/d | <u>33 900</u> | (1) | | |
| | <u>57 000</u> | | | <u>57 000</u> |

Accept vertical format [7]

- (b) Agrippa Ltd
Balance Sheet (extract) as at 31 October 2008

| | |
|--------------------------|---------------------|
| | \$ |
| Called up share capital | |
| 5% \$1 Preference shares | 30 000 (1) |
| \$1 Ordinary shares | 40 000 (1) |
| General reserve | 28 000 (1) |
| Profit and loss account | <u>33 900 (1of)</u> |
| | <u>131 900</u> |

[4]

- (c) Authorised share capital is the maximum a company may issue (1)
OR
Authorised capital is the amount of share capital a company is authorised to issue by its memorandum and articles of association (1)

Called up share capital is the total amount the company had sold on fully or partly paid shares (1) [2]

- (d) Ordinary shares have variable dividends or in some years no dividends, whereas preference shares have a fixed dividend (2)
OR
Preference shares have preferential rights on the winding up of a company whereas ordinary shares have no such rights (2)

Accept other appropriate alternatives [2]

| | | | |
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- (e) Debentures represent creditors of a company where preference shares represent a form of membership (2)
OR
Debentures may be secured whereas preference shares are not secured (2)

Accept other appropriate alternatives [2]

- (f) This approach does not follow accounting standards (2)
This is not legally acceptable (2)
The change would overstate the profits (2)

Accept other appropriate alternatives [max 4]

- (g) IASs provide a commonly understood range of rules (2)
Accountants therefore have guidance to follow (2)
This offers less opportunity for confusion (2)
Comparison is easier as similar rules are followed (2)
There is less opportunity for manipulation of results (2)
IASs mean that there is some regulation of accounts improving reliability (2)

Accept other appropriate alternatives [max 4]

[Total: 25]

5 (a) Samma Rashid
Manufacturing Account for the year ended 31 October 2008

| | | | | | |
|---|---------------|-----|----------------|-----|--------------------------------|
| | \$ | | \$ | | \$ |
| Stock of raw materials at 1 November 2007 | | | 26 700 | (1) | Cost of production (1) 422 360 |
| Purchases of raw materials | | | <u>213 200</u> | (1) | |
| | | | 239 900 | | |
| Less: stock of raw materials at 31 Oct 2008 | | | <u>30 640</u> | (1) | |
| Cost of materials consumed (1) | | | 209 260 | | |
| Direct factory wages (145 300 + 12 100) | | | <u>157 400</u> | (1) | |
| Prime cost (1) | | | 366 660 | | |
| Factory manager's salary | 14 800 | (1) | | | |
| Indirect factory expenses | 23 200 | (1) | | | |
| Provision for depreciation of factory plant and machinery (80 000 – 8 000) x 25% | <u>18 000</u> | (1) | <u>56 000</u> | | |
| | | | 422 660 | | |
| Less increase in work in progress | | | <u>300</u> | (1) | |
| | | | <u>422 360</u> | | <u>422 360</u> |

Accept alternative presentation

[11]

| | | | |
|---------------|--|-----------------|--------------|
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(b)

Samma Rashid

Trading and Profit and Loss Account for the year ended 31 October 2008

| | \$ | | \$ | | |
|---|----------------|--------------|--|----------------|--------------|
| Stock of finished goods at 1 November 2007 | 2 450 | (1) | Sales | 525 300 | (1) |
| Cost of production | 422 360 | (1of) | | | |
| Purchases of finished goods | 15 800 | (1) | | | |
| Less returns | <u>900</u> | (1) | | | |
| | 14 900 | | | | |
| | 439 710 | | | | |
| Less stock of finished goods at 31 Oct 2008 | <u>2 150</u> | (1) | | | |
| Cost of goods sold | 437 560 | | | | |
| Gross profit c/d | <u>87 740</u> | | | | |
| | <u>525 300</u> | | | <u>525 300</u> | |
| Office salaries | 36 200 | (1) | Gross profit b/d | 87 740 | (1of) |
| Sundry office expenses | 18 600 | (1) | Discounts received | 5 100 | (1) |
| Distribution costs (23 400 – 1 860) | 21 540 | (1) | Reduction in provision for doubtful debts | | |
| Provision for depreciation of office equipment [(24 000 – 15 360) × 40%] | 3 456 | (1) | {800 – [(44 250 – 4800) × 2%]} | <u>11</u> | (2) |
| Net profit c/d | <u>13 055</u> | | | <u>92 851</u> | |
| | <u>92 851</u> | | | <u>92 851</u> | |

Accept any recognisable layout

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| | | | |
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(c)

Samma Rashid
Balance Sheet as at 31 October 2008

| | Cost | Acc Depr'n | NBV | | | |
|------------------------------------|------------------|---------------------|---------------------|------------------------------|---------------|------------------------------|
| Fixed assets | | | | Capital at | | |
| Factory plant and machinery | 80 000 | 54 000 (1of) | 26 000 | 1 November 2007 | 80 740 | (1) |
| Office equipment | <u>24 000</u> | <u>18 816</u> (1of) | <u>5 184</u> | Net profit | <u>13 055</u> | (1of) |
| | <u>104 000</u> | <u>72 816</u> | 31 184 (1) | Drawings | <u>11 600</u> | (1) |
| | | | | | | 82 195 |
| Current assets | | | | | | |
| Stock | | | | Current liabilities | | |
| Raw materials | 30 640 | | | Creditors | 19 600 | (1) |
| Work in progress | 8 200 | | | Accrued direct factory wages | <u>12 100</u> | (1) |
| Finished goods | <u>2 150</u> | 40 990 (1) | | | | 31 700 (1of) if no aliens |
| Debtors | 39 450 (1) | | | | | |
| Less: provision for doubtful debts | <u>789</u> (1of) | 38 661 | | | | |
| Cash at bank | | 1 200 (1) | | | | |
| Prepaid distribution costs | | <u>1 860</u> (1) | <u>82 711</u> (1of) | | | |
| | | | <u>113 895</u> | | | <u>113 895</u> |

Accept any recognisable layout

[15]

[Total: 40]