

**MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers**

7110 PRINCIPLES OF ACCOUNTS

7110/23

Paper 23 (Structured), maximum raw mark 120

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1 (a) Owner's capital \$3 000 (1)

Capital employed \$6 500 (1)

[2]

(b)

Item	Book of prime entry	Effects on current assets	Effect on current liabilities	Effect on capital
(i)	Cash book	-\$200	No effect	-\$200
(ii)	Purchases day book (1)	+\$1 500 (1)	+\$1 500 (1)	No effect (1)
(iii)	Sales day book (1)	+\$800 (1)	No effect (1)	+\$800 (1)
(iv)	Cash book (1)	-\$4 000 (1)	No effect (1)	No effect (1)
(v)	Cash book (1)	-\$1 440 (1)	-\$1 500 (1)	+\$60 (1)

[16]

(c)

Trial balance of Leung as at 31 May 2010

	Dr \$	Cr \$
Gross profit		6 650 (1)
Inventory (stock)	4 600	(1)
Bank loan		3 500 (1)
Trade receivables (debtors)	1 200	(1)
Trade payables (creditors)		2 100 (1)
Office equipment	4 000	(1)
Cash (bank)	1 750	(1)
Discount received		150 (1)
Rent and expenses	3 850	(1)
Capital		3 000 (1)
	<u>15 400</u>	<u>15 400</u>

Marks awarded for description and figure.

[10]

[Total: 28]

2 (a) Purchase Ledger Control Account

	\$		\$	
Bank/cash	47 000	(1)	Balance b/d	1 700
Discount received	300	(1)	Purchases	47 900
Balance c/d	<u>2 300</u>	(1)		
	<u>49 600</u>			<u>49 600</u>

[5]

(b) (i) Net pay of Susan

	\$	
Salary	950	(1)
Tax and social security	<u>165</u>	
	785	(1)of

[2]

(ii) Cost of employing Susan

	\$	
160 × \$5 =	800	
20 × \$7.5 =	<u>150</u>	
Salary	950	(1)of
Social security	<u>90</u>	
	1 040	(1)of

[2]

(c) Journal

	Dr		Cr	
	\$		\$	
Wages and expenses	1 040			(1)of
Bank			785	(1)of
Tax authorities			255	(1)of

[3]

(d) Tsang
Income statement (Trading and Profit and Loss Account) for the month ended 31 March 2010

	\$		\$
Revenue (sales)			65 000
Opening inventory (stock)	3 400		
Purchases	<u>47 900</u>	(1)	
	51 300		
Closing inventory (stock)	<u>2 900</u>		
Cost of sales			<u>48 400</u>
Gross profit			16 600
Discount received			<u>300</u>
			16 900
Wages & expenses			<u>2 500</u>
Profit for the year (net profit)			<u>14 400</u>

Alternatives formats accepted [6]

[Total: 18]

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- 3 (a) Goodwill is the value of a business over and above the value of its recorded assets. (1)
Examples would include reputation, quality of service, brand names, location, existing workforce, regular customers (1). [2]

OR

Goodwill is the difference between the value of the separate net assets of a business and the total value of the business.

- (b) Money measurement [2]
Prudence [2]

- (c) Calculation:

	(i) Chan	(ii) David	
	\$	\$	
Capital 31 August 2009	50 000	15 000	
Less share of goodwill	<u>20 000</u> (1)	<u>10 000</u> (1)	
Capital 1 September 2009	<u>30 000</u> (1)	<u>5 000</u> (1)	[4]

- (d) Newstart
Balance Sheet at 1 April 2009

	\$	\$	
Non-current (fixed) assets		33 000 (1)	
<u>Current assets</u>			
Inventory (stock)	12 000		
Trade receivables (debtors)	<u>7 000</u>		
	19 000 (1)		
<u>Current liabilities</u>			
Trade payables (creditors)	11 000 (1)		
Bank overdraft	<u>6 000</u> (1)		
	17 000		
Net current assets		<u>2 000</u>	
		<u>35 000</u>	
Financed by:			
Capital – Chan	30 000 (1)of		
David	5 000 (1)of		
		<u>35 000</u>	[6]

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(e) Newstart
Income statement (Profit and Loss Appropriation Account) for the year ended 31 March 2010

	\$	\$	
Profit for the year (net profit)		10 250	
Plus interest on drawings			
Chan	750		(1)
David	<u>1 000</u>		(1)
		<u>1 750</u>	
		12 000	
Less salaries			
Chan	8 000		
David	<u>7 000</u>		(1) for both salaries
		<u>(15 000)</u>	
		(3 000)	
Share of losses			
Chan	(2 000)		(1)of if correct split
David	<u>(1 000)</u>		(1)of if correct split
		<u>(3 000)</u>	

[5]

[Total: 21]

4 (a) (i) Cost of sales

	\$	
Sales	250 000	
Less 40% Gross profit	<u>100 000</u>	
Cost of sales	<u>150 000</u>	(3)

[3]

(ii) Raw materials (purchases)

	\$	
Opening stock	10 000	
Purchases	<u>165 000</u>	(2)of
	175 000	
Closing stock	<u>25 000</u>	(1)
Cost of sales	<u>150 000</u>	(1)of

[4]

(iii) Expenses

		\$	
Gross profit	40%	100 000	
Expenses		<u>80 000</u>	(3)
Net profit	8%	<u>20 000</u>	

[3]

(iv) Rate of inventory (stock) turnover

$$\frac{\text{Cost of goods sold}}{\text{Average inventory (stock)}} = \frac{150\,000 \text{ (of)}}{((10\,000 + 25\,000)/2)} = 8.57 \text{ times (3)of} \quad [3]$$

[Total: 13]

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5 (a)

Wang Yee

Manufacturing Account for the year ended 31 January 2010

	\$	\$	
Inventory (stock) of raw materials at 1 February 2009	14 700		(1)
Purchases of raw materials	<u>75 600</u>		(1)
	90 300		
Less: Inventory (stock) of raw materials at 31 January 2010	<u>16 250</u>		(1)
Cost of raw materials consumed	74 050		(1)
Direct factory wages (\$62 140 + \$1 120)	<u>63 260</u>		(1)
Prime cost		137 310	(1)
Rent	16 800		(1)
Factory managers salary	31 500		(1)
Provision for depreciation of plant and machinery	<u>11 600</u>		(1)
		<u>59 900</u>	
		197 210	
Add decrease in work in progress (\$23 570 – \$18 780)		<u>4 790</u>	(1)
Cost of production		<u>202 000</u>	(1) [11]

(b)

Wang Yee

Income statement (trading and profit and loss account) for the year ended 31 January 2010

	\$	\$	
Revenue (sales)		342 500	(1)
Less Revenue (sales) returns		<u>1 250</u>	(1)
		341 250	
Inventory (stock) of finished goods at 1 February 2009	35 000		(1)
Cost of production	202 000		(1)of
Raw materials (purchases) of finished goods	<u>15 500</u>		(1)
	252 500		
Inventory (stock) of finished goods at 31 January 2010	<u>32 500</u>		(1)
Cost of sales		<u>220 000</u>	
Gross profit		121 250	
Rent	11 200		(1)
Office salaries	41 600		(1)
Distribution costs	28 650		(1)
Sundry office expenses (\$9 870 – \$630)	9 240		(1)
Finance costs (loan interest) (\$2 400 + \$800)	3 200		(2)
Provision for depreciation of			
Office equipment (\$24 000 × 20%) \$4 800			
(\$6 000 × 20% × 4 ÷ 12) 400	5 200		(2)
Increase in provision for doubtful debts	<u>250</u>		(1)
		<u>99 340</u>	
Profit for the year (net profit)		<u>21 910</u>	[15]

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(c)

Wang Yee
Balance sheet as at 31 January 2010

	Cost	Depreciation to date	NBV	
	\$	\$	\$	
<u>Non-current (fixed) assets</u>				
Property (land and buildings)	80 000		80 000	(1)
Plant and machinery	90 000	43 600	46 400	(1)
Office equipment	<u>30 000</u>	<u>17 200</u>	<u>12 800</u>	(1)
	<u>200 000</u>	<u>60 800</u>	<u>139 200</u>	
<u>Current assets</u>				
Inventory (stock)				
Raw materials	16 250			
Work in progress	18 780			
Finished goods	<u>32 500</u>			
		67 530		(1)
Trade receivables (debtors)	45 000			
Less: provision for doubtful debt	<u>1 800</u>			
		43 200		(2)
Other receivables (prepaid expenses)		<u>630</u>		(1)
		111 360		
Less: <u>Current liabilities</u>				
Trade payables (creditors)	60 700			(1)
Other payables				
(accrued expenses) (\$1 120 + \$800)	1 920			(2)
Loan repayable within 12 months (bank overdraft)	<u>33 030</u>			(1)
		<u>95 650</u>		
Net current assets			<u>15 710</u>	(1)
			154 910	
<u>Non-current (long term) liabilities</u>				
8% loan repayable 31 December 2015			<u>40 000</u>	(1)
			<u>114 910</u>	
Financed by:				
Capital		110 000		
Plus: Net profit		<u>21 910</u>		
		131 910		
Less: Drawings		<u>17 000</u>		
			<u>114 910</u>	(1) of [14]
				[Total: 40]