

MARK SCHEME for the October/November 2013 series

7110 PRINCIPLES OF ACCOUNTS

7110/22

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)

		General Journal	
		Dr	Cr
		\$	\$
2013			
Jan 1	Cash	350	}
	Bank	3 000	}
	Motor vehicle	6 500	}
	Loan		5 000}
	Capital		<u>4 850</u> (2) (1 of)
		<u>9 850</u>	<u>9 850</u>

Assets and liabilities at start of business. (1)

Capital at this date

[3]

(b)

		General Journal	
		Dr	Cr
		\$	\$
2013			
Jan 28	Disposal	6 500 (1)	
	Motor vehicle		6 500 (1)
	Aktar Allam	6 500 (1)	
	Disposal		6 500 (1)
<hr/>			
Jan 28	Motor vehicle	10 000 (1)	
	Aston Motors Limited		10 000 (1)
<hr/>			

[6]

(c) Any two uses from:

Correction of errors (1)

Year-end transfers/from expenses account to Income Statement (1)

Items which cannot be recorded in other journals (1)

Bad debts written off (1)

Depreciation of the year (1)

Record drawings for inventory (1)

Max 2

[2]

(d)

2013	Transaction	Source document	Book of prime entry	Effect on profit
Jan 4	Goods sold, cost price \$400, on credit to Keen	GIVEN	GIVEN	GIVEN
Jan 5	Keen returned goods, list price \$80	Credit note (1)	Sale returns journal (1)	Decrease \$16 (1)
Jan 6	Payment made to J Singh, \$323, in cash, after deducting \$17 cash discount	Receipt (1)	Cash book (1)	Increase \$17 (1)
Jan 7	Kulbir withdrew \$200 from the bank for personal use	Bank Statement/ Cheque counterfoil (1)	Cash book (1)	No effect (1)

[9]

[Total: 20]

2 (a)

Sales Ledger Control account

2013		\$	2013		\$
May 1	Balance b/d	5 687	May 31	Bank/cash	64 500 (1)
May 31	Sales	72 727 (1)		Sales returns	8 242 (1)
	Bank	2 300 (1)		Discount allowed	1 894 (1)
				Bad debts	800 (1)
				Contra	300 (1)
				Balance c/d	4 978 (1)
		<u>80 714</u>			<u>80 714</u>
Jun 1	Balance b/d	4 978 (1)of			

[9]

(b) Three benefits

- Check on arithmetical accuracy of double entry (2)
- Provides a basis for preparing financial statements (2)
- Find total trade receivables and/or find total trade payables (2)
- Prevents fraud/theft (2)
- Assess staff efficiency (2)
- Save time in producing trial balance and/or final accounts (2)
- Find missing figures in single entry (2)

Max 6

[6]

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- (c) Two sources for sales ledger control account
 Sales returns journal (1)
 Sales journal (1)
 Cash book (1)
 General journal/Journal (1)
 Balance from previous debtors sales ledger control account (1)
Max 2 [2]

(d) General Journal

2013		Dr	Cr
		\$	\$
June 26	Bad debts	1 380 (1)	
	John Lee		1 380 (1)
	Bad debt written off (1)		

[3]

- (e) Concept:
 Prudence (1)
- Reasons:
 All losses should be anticipated (2)
 So that profits are not overstated (2)
 So that trade receivables/current assets are not (2)
 To prepare for debts that are likely to turn bad in the future (2)
Max 3
- Concept:
 Matching or accrual principle (1)
- Reason:
 All known losses should be matched against revenue within the same period (2)
 In order to calculate a true and fair profit figure for the year (2)
Max 3 [6]

[Total: 26]

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3 (a) Depreciation of kits and equipment

	\$		
Balance 1 July 2012	5 000	(1)	
Purchases in year	4 656	(1)	
Value of items sold	<u>(1 230)</u>	(1)	
	8 426		
Balance 30 June 2013	<u>(8 104)</u>	(1)	
	322	(1)	[5]

(b) Loss on disposal

	\$		
Value of sales in year	1 230	(1)	
Less receipt from sale	<u>(1 008)</u>	(1)	
Loss on sale	222	(1)	[3]

(c) Subscriptions account

2012			2013		
July 1	Balance b/d	240	June 30	Bank	7 200
		(1)			(1)
2013					
June 30	Income and expenditure	6 420			(1 o/f)
	Balance c/d	540			
		<u>7 200</u>			<u>7 200</u>
			July 1	Balance b/d	540
					(1)

**(d) Brown Lane Rovers Football Club
Refreshments Income statement for the year ended 30 June 2013**

	\$	\$	\$
Revenue			6 834
Less			
Inventory 1 July 2012		250	
Purchases	2 078	(1)	
Creditors 1 July 2012	(1 034)	(1)	
Creditors 30 June 2013	<u>1 140</u>	(1)	
		<u>2 184*</u>	
		2 434	
Inventory 30 June 2013		<u>(300)</u>	<u>(2 134)</u>
Profit for year			<u>4 700</u> (1) of
*Allow \$2078 + \$106 = \$2184 (3)			

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(e) Brown Lane Football Club
Income and Expenditure account for the year ended 30 June 2013

	\$	\$
Income		
Subscriptions		6 420 (1) of
Match day revenue		1 233
Profit on refreshments		4 700 (1) of
Donation income		<u>940</u> 13 293
Less expenditure		
General running expenses	6 913 (1)	
Groundsman's wages	1 940 (1)	
Depreciation	322	
Loss on disposal	222	
Match day expenses	<u>3 680</u>	(13 077)
Surplus of income over expenditure		<u>216</u> (1) of

[5]

(f) Must be one comment from each for 2 marks max.

Income and expenditure

Receipts and payments

Records revenue and not capital expenditure/income.

Makes no distinction between capital and revenue income/expenditure.

Similar to income statement.

Similar to cash book.

Applies matching concept.

Record when cash is paid/spent.

Shows a surplus/deficit.

May have opening/closing balances.

Includes depreciation of non-current assets.

Record purchase or sale of non-current assets.

[2]

[Total: 23]

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4 (a) Gross profit margin = 25% (1)
(\$75 000 ÷ \$300 000 × 100)

Net profit margin = 9.33% (1)
(\$27 990 ÷ 300 000 × 100)

Return on capital employed = 11.66% (1)
(\$27 990 ÷ 240 000 × 100)

[3]

(b) Net profit trend (accept own figures comments from part (a))

Three-year trend has fallen/deteriorated (1)

Gross profit margin has remained constant (1)

Gross profit has increased (1)

Sales had increased (1)

Net profit has increased (1)

Net profit margin has fallen (1) despite an increase in sales (1)

Percentage of expenses to sales has increased (1)

Expenses have increased at a faster rate than sales (1)

Return on capital employed has decreased (1) of less than 1% / by a small amount (1)

Max 8

[8]

[Total: 11]

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5 (a)

Cain and Les

Income statement for the year ended 30 September 2013 (1)

	\$	\$
Revenue		103 769 (1)
Commission received		2 400 (1)
Discount received		<u>1 400 (1)</u>
		107 569
Less expenses		
Staff salaries	14 170 (1)	
General expenses (23 460 – 1010)	22 450 (1)	
Heat and light expenses (4760 + 150)	4 910 (1)	
Communication expenses (7680 + 2400)	10 080 (1)	
Motor vehicle expenses (3650 + 2000)	5 650 (1)	
Discounts allowed	3 400 (1)	
Bank loan interest (3000 + 200)	3 200 (1)	
Bank charges	123 (1)	
Provision for doubtful debts	16 (1)	
Depreciation:		
Premises	7 080 (1)	
Office equipment	7 200 (1)	
Motor vehicles	<u>2 560 (1)</u>	(80 839)
Profit for the year		26 730
Add		
Interest in drawings: Cain	480	
Les	600 (1 both)	<u>1 080</u>
		27 810
Interest on capital: Cain	4 000	
Les	3 000 (1 both)	7 000
Salary	Les	
	<u>16 000 (1)</u>	(23 000)
		4 810
Share of profit: Cain	2 886} (1 of	
Les	<u>1 924} both)</u>	(4 810)

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(b)

	Current accounts				
	Cain	Les		Cain	Les
	\$	\$		\$	\$
Balance b/d		15 500 (1)	Balance b/d	700 (1)	
Interest on drawings	480	600 (1 of)	Salary		16 000 (1)
Drawings	12 000	15 000 (1)	Interest on capital	4 000	3 000 (1 of)
			Share of profit	2 886	1 924 (1 of)
			Balance c/d	4 894	10 176
	<u>12 480</u>	<u>31 100</u>		<u>12 480</u>	<u>31 100</u>
Balance b/d	4 894	10 176			

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(c) Statement of Financial Position at 30 September 2013

	Cost	Accumulated Depreciation	Net Book Value
	\$	\$	\$
<u>Non-current assets</u>			
Premises	118 000	14 160	103 840 (1) of
Office equipment	60 000	28 800	31 200 (1) of
Motor vehicles	<u>20 000</u>	<u>9 760</u>	<u>10 240</u> (1) of
	<u>198 000</u>	<u>52 720</u>	<u>145 280</u>
<u>Current assets</u>			
Trade receivables	10 720		
Provision for doubtful debts	<u>(536)</u>	10 184 (1)	
Other receivables		1 010 (1)	
Bank (\$20 889 – bank charges \$123)		<u>20 766</u> (1)	
		31 960	
<u>Current liabilities</u>			
Trade payables	1 960 (1)		
Other payables (Bank interest \$200 (1of) + \$150 (1))			
Heat and light)	<u>350</u>	(2 310)	
Net current assets			<u>29 650</u>
			174 930
<u>Less Non-current liabilities (1)</u>			
8% bank loan repayable 30 June 2019		40 000 (1 both)	
Cain loan repayable 31 March 2018		<u>10 000</u>	<u>(50 000)</u>
Net assets			<u>124 930</u>
Financed by			
Capital accounts			
Cain		80 000 (1 both)	
Les		<u>60 000</u>	140 000
Current accounts			
Cain		4 894 Dr (1 of	
Les		<u>10 176</u> Dr both)	<u>(15 070)</u>
			<u>124 930</u>

[13]

[Total: 40]