

CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Ordinary Level

MARK SCHEME for the May/June 2015 series

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

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1 (a)

Mira
Trial Balance at 31 March 2015

	Dr \$	Cr \$
Office fixtures (at cost)	18 000	
Office fixtures provision for depreciation		7 200
Trade payables		5 400
General expenses	1 520	
Trade receivables	3 700	
Inventory	7 800	
Bank overdraft		2 600
Capital		16 000
Suspense (1)	180 (1)	
	31 200	31 200

(2) Both totals

[4]

(b)

General Journal

	Debit \$	Credit \$
General expenses	180 (1)	
Suspense		180 (1)
General expenses	1000 (1)	
Office fixtures		1000 (1)

[4]

(c)

Date	Transaction	Source document	Book of prime entry	Account debited	Account credited
April 9	Sold goods on credit to Yash.	<i>Sales invoice</i>	<i>Sales journal</i>	<i>Yash</i>	<i>Sales</i>
April 11	Yash returned goods sold on 9 April as damaged.	Credit note (1)	Sales returns journal (1)	Sales returns (1)	Yash (1)
April 14	Paid wages by cheque.	Wages sheet/payroll (1)	Cash Book (1)	Wages (1)	Bank (1)
April 19	Purchased office fixtures on credit from Equip Ltd.	Purchase invoice (1)	General Journal (1)	Office fixtures (1)	Equip Ltd (1)

[12]

[Total: 20]

2 (a) Purchases ledger control account

	\$		\$
28 Feb Bank	32 500 (1)	1 Feb Balance b/d	17 160
28 Feb Purchases returns	3 800 (1)	28 Feb Purchases	28 500 (2)(1of)
Discount received	910 (1)		
Balance c/d	<u>8 450</u>		
	<u>45 660</u>	1 Mar Balance b/d	<u>45 660</u> 8 450 (1of) [6]

(b) Sales ledger control account

	\$		\$
1 Feb Balance b/d	14 900	28 Feb Bank	45 800 (1)
28 Feb Bank	200 (1)	Discount allowed	2 700 (1)
(dishonoured cheque)		Bad debt	1 800 (1)
Sales	<u>47 800 (2)(1of)</u>	Balance c/d	<u>12 600</u>
	<u>62 900</u>		<u>62 900</u>
1 Mar Balance b/d	12 600 (1of)		[7]

(c) Income Statement for the month ended 28 February 2015

	\$	\$
Sales: Credit		47 800 of
Cash		<u>10 500 (1)</u>
		58 300
Less		
Inventory 1 February	9 350	
Purchases (28 500 – 3 800)	<u>24 700 of</u>	
	34 050	
Less Inventory 28 February	<u>8 650</u>	
Cost of sales		<u>25 400 (1of)</u>
Gross profit		32 900
Add:		
Discount received		<u>910</u>
		33 810
Less expenses:		
Discount allowed		2 700
Bad debts		1 800
Depreciation		800 (1)
Wages		15 200 (1)
General expenses (7 900 – 2 300 (1) + 1 600 (1))		<u>7 200</u>
Profit for the month		<u>6 110</u> [6]

- (d)** Large storage capacity
 Accuracy
 Speed of processing
 Security of data
 To prepare the trial balance
 To prepare financial statements
 To prepare exception reports
(1) × 2 points [2]

[Total: 21]

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3 (a)

Warle Limited
Statement of Changes in Equity for the year ended 30 April 2015

	Share Capital \$	General Reserve \$	Retained Profits \$	Total \$	
Balance at 1 May 2014	100 000	20 000	14 000	134 000	
Profit for the year	.....	.....	86 000	86 000 (1)	
Transfer to general reserve	.....	50 000	(50 000)	0 (1)	
Dividend paid (interim)	.....	.....	(3 000)	(3 000) (1)	
Dividend paid (final)	.....	.....	(15 000)	(15 000) (1)	
Balance at 30 April 2015	100 000	70 000 (1)	32 000 (1)	202 000	[6]

(b) Statement of Financial Position extract at 30 April 2015

	\$	\$	
Share capital			
Ordinary shares of \$1 each		100 000 (1)	
Reserves			
General reserve	70 000 (1)		
Retained profits	<u>32 000 (1)</u>		
		<u>102 000</u>	
Shareholders' funds (1)		<u>202 000 (1of)</u>	[5]

(c) Differences:

Preference shares	Debentures	
Paid dividend	Paid interest	
Part of company equity/share capital	Loans to the company/loan capital	
Generally no set repayment date/ may be redeemable	Set redeemable date	
May be cumulative dividend	Interest must be paid even if losses are incurred	
(2) × 2 differences (Other valid points)		[4]

(d) Retain cash in the business/to retain working capital
Retain profit for future use such as future dividend payments
Build reserves for future non-current asset purchase
(1) × 2 points
(Other valid points) [2]

(e) Consistency in preparing accounts in different countries
Accounting information can be relied upon although prepared in different countries
Standard framework of preparation in different countries
Comparison of information facilitated, although accounts are prepared in different countries.
(1) × 2 points [2]

[Total: 19]

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4 (a) (i) $900\,000 \times \frac{100}{120} = 750\,000$ (1) [2]

(ii) $900\,000 - 750\,000$ of $= 150\,000 - 105\,000$ (1) $= 45\,000$ (1)of [2]

(b)

	Workings	31 March 2015	31 March 2014
Profit margin (profit for the year to revenue)	$\frac{45\,000}{900\,000}$ of $\times 100 =$ (1)	5% (1)of	5%
Rate of inventory turnover	$\frac{750\,000}{(65\,000 + 35\,000)/2}$ of (1)	15 times (1)of	7 times
Return on capital employed (ROCE)	$\frac{45\,000}{300\,000 + 150\,000}$ of (1) =	10% (1)of	4%

[6]

(c) **Own figure rule for answers**

The net profit margin has remained unchanged at 5% (1)

Expenses as a proportion of sales have remained unchanged (1)

Cost of sales as a proportion of sales has remained unchanged (1)

Gross profit as a proportion of sales has remained unchanged (1)

Rate of inventory turnover has increased substantially (1)

John has increased the number of times that he sells the inventory in a year (1)

Inventory has reduced and is under control (1)

Return on capital employed has increased (1)

Greater total amount of profit (1)

More efficient use of funds in 2015 (1)

Max (1) \times 6 points

(Other valid points)

[6]

(d)

	Proposal	Accounting principle/concept
1	Change the depreciation methods for non-current assets	<i>Consistency</i>
2	Remove the provision for doubtful debts from the financial statements	Prudence or Matching/Accruals (1)
3	Value the inventory at market price	Historic cost (1)
4	Place a value on the skill of the workforce in the financial statements	Money measurement (1)
5	Exclude expenses owing from the income statement	Matching/Accruals (1)

[4]

[Total: 20]

5 (a)

Spiron Manufacturing			
Manufacturing Account for the year ended 30 April 2015			
	\$	\$	
Raw materials inventory 1 May 2014	10 150		
Purchases of raw material	<u>85 000</u> (1)		
	95 150		
Raw materials inventory 30 April 2015	<u>(12 750)</u> (1)		
Cost of raw materials consumed		82 400 (1)of +w	
Factory wages		47 000 (1)	
Direct expenses		<u>5 600</u> (1)	
Prime cost		135 000 (1)of +w	
Factory overheads:			
Managers' salaries	32 000 (1)		
Indirect expenses	9 800 (1)		
Rent	8 000 (1)		
Insurance	6 400 (1)		
Depreciation – machinery	<u>5 000</u> (1)		
		<u>61 200</u>	
		196 200	
Work in progress:			
At 1 May 2014	15 000		
At 30 April 2015	<u>(16 200)</u>		
		<u>(1 200)</u> (1)	
Cost of production		<u>195 000</u> (1)of +w	[13]

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(b)

Income Statement for the year ended 30 April 2015

	\$	\$	
Revenue		310 000	
Less			
Inventory of finished goods 1 May 2014	21 200		
Transferred from manufacturing	195 000	(1)of	
Purchases of finished goods	<u>19 000</u>	(1)	
	235 200		
Inventory of finished goods 30 April 2015	<u>(18 700)</u>		
Cost of sales		<u>(216 500)</u>	
Gross profit		93 500	(1)of
Less expenses:			
Office wages and salaries	41 900	(1)	
Rent	2 000	(1)	
Insurance	1 600	(1)	
Marketing (12 400 – 600)	11 800	(2)	
Distribution expenses	9 850	(1)	
Financial expenses (7 650 + 850)	8 500	(2)	
Bad debt	1 900	(1)	
Increase in provision for doubtful debts	700	(1)	
Depreciation – office fixtures	<u>3 000</u>	(1)	
		<u>(81 250)</u>	
Profit for the year		<u>12 250</u>	(1)w+of

[15]

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(c) Statement of Financial Position at 30 April 2015

Assets	Cost	Depreciation to date	Book value	
Non-current assets	\$	\$	\$	
Machinery	80 000	65 000	15 000	(1)of
Office fixtures	<u>20 000</u>	<u>11 000</u>	<u>9 000</u>	(1)of
	<u>100 000</u>	<u>76 000</u>	<u>24 000</u>	
Current assets				
Inventory: Raw materials			12 750	(2) All three
Work in progress			16 200	
Finished goods			18 700	
Trade receivables		22 000		(1)
Less Provision for doubtful debts		<u>1 100</u>		(1)of
			20 900	
Other receivables			600	(1)
Bank			<u>7 700</u>	(1)
			<u>76 850</u>	
Total assets			<u>100 850</u>	
Liabilities				
Capital			\$ 90 000	
Profit for the year			<u>12 250</u>	(1)w +f
			102 250	
Drawings			<u>(16 600)</u>	(1)
			<u>85 650</u>	
Current liabilities				
Trade payables			14 350	(1)
Other payables			<u>850</u>	(1)
			<u>15 200</u>	
Total liabilities			<u>100 850</u>	[12]
				[Total: 40]