

June 2004

GCE ORDINARY LEVEL

MARKING SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 7110/02

PRINCIPLES OF ACCOUNTS  
Paper 2



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1. (a) Goodwill paid by Tyle

|                    |                   |  |     |
|--------------------|-------------------|--|-----|
|                    | \$                |  |     |
| Paid               | 25 000 (1)        |  |     |
| Net assets/capital | <u>20 000 (1)</u> |  |     |
| Goodwill           | <u>5 000 (1)</u>  |  | [3] |

(b) Business purchase account

|           |                   |           |                  |     |
|-----------|-------------------|-----------|------------------|-----|
| Dr        | \$                |           | \$               | Cr  |
|           |                   | Goodwill  | 5 000 (1 of)     |     |
| Creditors | 1 900 (1)         | Equipment | 9 300 (1)        |     |
|           |                   | Stock     | 4 100 (1)        |     |
|           |                   | Debtors   | 5 300 (1)        |     |
| Saxon     | <u>25 000 (1)</u> | Bank      | <u>3 200 (1)</u> |     |
|           | <u>26 900</u>     |           | <u>26 900</u>    | [7] |

Total marks [10]

2. (a) (i) Fixed Assets

Valued at cost (1) less accumulated (1) depreciation (1) [3]

(ii) Stock

Valued at cost (1) or net realisable value / (market value) (1), whichever is lower (1) [3]

(iii) Trade debtors

Valued at expected collectible amounts (2)

or

Total debtors balances (1) less provisions for discounts and doubtful debts (1) [2]

(b) (i) The working capital

Current assets \$24 200 (1) — Current liabilities \$12 100 (1) = \$12 100 (1) [3]

(ii) Net profit as a percentage of capital

$\frac{\$9\,500 (1)}{\$20\,000 (1)} \times 100 = 47.5\% (1)$  [3]

|               |   |                 |              |
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(c)

| Item  | Effect on working capital<br>\$ | Effect on net profit<br>\$ |
|---|---------------------------------|----------------------------|
| (ii) Obsolete closing stock, \$400 is to be written off       | Decrease 400<br>(1)             | Decrease 400<br>(1)        |
| (iii) A provision for doubtful debts, \$100 is to be created  | Decrease 100<br>(1)             | Decrease 100<br>(1)        |
| (iv) The depreciation charge is to be increased by \$200      | No effect<br>(1)                | Decrease 200<br>(1)        |
| (v) A fixed asset is to be sold at its net book value, \$1000 | Increase 1000<br>(1)            | No effect<br>(1)           |

[8]  
Total marks [22]

3. (a) (i) Debit column total \$359 000 (1)

(ii) Suspense account balance \$47 600 (1)

(iii) Credit column total \$359 000 (1) [3]

(b) Suspense account

|                              |               |     |         |               |        |
|------------------------------|---------------|-----|---------|---------------|--------|
| Dr                           | \$            |     |         | \$            | Cr     |
| Profit and Loss Account      | 47 000        | (1) | Balance | 47 600        | (1 of) |
| Provision for doubtful debts | 1 200         | (1) | Debtors | 600           | (1)    |
|                              | <u>48 200</u> |     |         | <u>48 200</u> | [4]    |

(c) The uses of the trial balance.

A check on the arithmetical (1) accuracy (1) of double entry (1)

Basis on which to prepare final accounts (1) [max 3]

|               |   |                 |              |
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(d) **Five errors not affecting the Trial Balance.**

- Error of omission (1)
- Error of commission (1)
- Error of principle (1)
- Compensating error (1)
- Error of original entry (1)
- Reversal errors (1)

Any 5 x 1 mark [5]

Note: Accept examples

Total marks [15]

4. (a) (i) Diminishing (reducing) balance

The same percentage/proportion (1) of the net book value (1) is charged annually as depreciation. [2]

(ii) Straight-line

The same percentage/proportion (1) of cost less estimated residual value (1) is charged annually as depreciation. [2]

(iii) Revaluation

Depreciation is calculated as value at start of year  
 plus  
 cost of items purchased during the accounting period (1)  
 less  
 Valuation of fixed assets at end of the accounting period (1) [2]

(b) (i) Diminishing (reducing) balance

Year 1 depreciation —  $60\% \times \$2000 = \$1200$  (1)  
 Year 2 depreciation —  $60\% \times (\$2000 - \$1200) = \$480$  (1) [2]

(ii) Straight-line

Year 1 depreciation —  $10\% \times \$3000 = \$300$  (1)  
 Year 2 depreciation —  $10\% \times \$3000 = \$300$  (1) [2]

(iii) Revaluation

Year 1 —  $\$800 - \$600 = \$200$  (1)  
 Year 2 —  $\$600 - \$350 = \$250$  (1) [2]

|               |   |                 |              |
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- (c) Computers are subject to rapid technological change (1) which must be reflected in the depreciation policy (1). The diminishing (reducing) balance method involves a high proportion of depreciation in early years (1)

Any 2 x 1 marks

Office furniture is used consistently over a long period (1) and this should be reflected in the depreciation policy (1). The straight-line method involves a consistent amount of depreciation being charged annually (1).

Any 2 x 1 marks

Loose tools are low cost fixed assets and tend to be numerous in any organisation (1). It is a simpler procedure to revalue loose tools than employ either of the other two methods of depreciation (1). Because of the value of these assets, the difference from more formal depreciation methods is not material (1) and is cost-effective for these assets (1).

Any 2 x 1 marks

[6]

Total marks [18]

5. (a)

Sue Lim and Vanessa Jackson  
Profit and Loss Account and Appropriation Account  
for the year ended 31 December 2003

|   | \$                   |                | \$             |
|---|----------------------|----------------|----------------|
| Rent [26 000 (1) – 2 000 (1)]   | 24 000               | Fees/Income    | 125 300 (1)    |
| Staff salaries [18 600 (1) + 790 (1)]                                     | 19 390               |                |                |
| Sundry expenses   | 34 400 (1)           |                |                |
| Bad debts   | 1 600 (1)            |                |                |
| Increase in provision for doubtful debts<br>[(5% x 18 300) (1) – 330 (1)] | 585                  |                |                |
| Provision for depreciation:<br>office equipment [50% x 14 000 (1)]        | 7 000 (1)            |                |                |
| Net profit c/d  | <u>38 325</u> (1 of) |                |                |
|   | <u>125 300</u>       |                | <u>125 300</u> |
| Partnership salary – Vanessa Jackson                                      | 6 000 (1)            | Net profit b/d | 38 325         |
| Share of profit:  |                      |                |                |
| Sue Lim [ $\frac{3}{5}$ x 32 325]   | 19 395 (2)           |                |                |
| Vanessa Jackson [ $\frac{2}{5}$ x 32 325]                                 | <u>12 930</u> (2)    |                |                |
|   | <u>38 325</u>        |                | <u>38 325</u>  |

Accept any recognisable layout

[17]

(b) Balance Sheet as at 31 December 2003 (1)

| Fixed Assets       | Cost              | Depr'n               | NBV                 |                              | Sue Lim               | Vanessa Jackson       |                |
|--------------------|-------------------|----------------------|---------------------|------------------------------|-----------------------|-----------------------|----------------|
|                    | \$                | \$                   | \$                  |                              | \$                    | \$                    | \$             |
| Office equipment   | <u>28 000</u>     | <u>21 000</u> (1 of) | <u>7 000</u> (1 of) | Capital Accounts             | <u>20 000</u> (1)     | <u>10 000</u> (1)     | 30 000         |
| Current Assets     |                   |                      |                     | Current Accounts             |                       |                       |                |
| Debtors            | 18 300            |                      |                     | Balance as at 1 January 2003 | 5 600                 | 3 720                 |                |
| Less: provision    |                   |                      |                     | Partnership salary           | –                     | 6 000 (1)             |                |
| for doubtful debts | <u>915</u> (1 of) | 17 385 (1 of)        |                     | Share of profits             | <u>19 395</u> (1 of)  | <u>12 930</u> (1 of)  |                |
| Bank               |                   | 90 (1)               |                     |                              | 24 995                | 22 650                |                |
| Prepaid rent       |                   | <u>2 000</u> (1)     |                     | Less: drawings               | <u>28 720</u> (1)     | <u>24 140</u> (1)     |                |
|                    |                   |                      | 19 475              | Balance as at 31 December    | <u>(3 725)</u> (1 of) | <u>(1 490)</u> (1 of) | <u>(5 215)</u> |
|                    |                   |                      |                     |                              |                       |                       | 24 785         |
|                    |                   |                      |                     | Current Liabilities          |                       |                       |                |
|                    |                   |                      |                     | Creditors                    |                       | 900 (1)               |                |
|                    |                   |                      |                     | Accrued staff salaries       |                       | <u>790</u> (1)        | <u>1 690</u>   |
|                    |                   |                      | <u>26 475</u>       |                              |                       |                       | <u>26 475</u>  |

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[18]  
Total marks [35]