

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

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 21 (Structured), maximum raw mark 120

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1 (a) Rahman Account

2010	\$	2010	\$	
April 1 Balance b/d	300 (1)	April 12 Sales Returns	120 (1)	
April 6 Sales	400 (1)	April 30 Bank	291 (1)	
April 18 Sales	170 (1)	April 30 Discount Allowed	9 (1)	
		April 30 Balance c/d	<u>450</u>	
	<u>870</u>		<u>870</u>	
May 1 Balance b/d	450 (1)of			[7]

- (b) (i) Enables Rahman to make a profit on resale
 Recognises Rahman as a regular and valued customer
 Encourages Rahman to buy a greater quantity
 Increase Goldy's sales volume [2]
- (ii) Sales Returns Journal or Sales Returns Day Book [1]
- (iii) Credit Note [1]

(c) Cash Book (Bank Columns Only)

2010	\$	2010	\$	
April 1 Balance b/d	650	April 12 Kwan	730	
April 8 Pacific Traders	1 500	April 17 Headland Garage	75	
April 18 Stanton & Co	96	April 15 Interest	12 (1)	
April 16 Dividends	<u>130 (1)</u>	April 20 Balance c/d	<u>1 559 (1)</u>	
	<u>2 376</u>		<u>2 376</u>	
April 21 Balance b/d	1 559 (1)of			[4]

Bank Reconciliation Statement at 20 April 2010

	\$	
Balance as per Bank Statement	1 538 (1)	
Add:		
Amounts not yet credited		
Stanton & Co	<u>96 (1)</u>	
	1 634	
Less:		
Cheques not presented		
Headland Garage	<u>75 (1)</u>	
Balance as per cash book	<u>1 559 (1)of</u>	[4]

[Total: 19]

- 2 (a) Wear and tear/physical deterioration
 Obsolescence/economic reasons
 Depletion
 Passage of time
 (1) per item (Max 2) [2]

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(b) (i) Land generally does not depreciate in value because it is a limited resource with an infinite life and can be used for a range of purposes. (2)

(ii) Inventory (Stock in trade) is not a fixed asset but is for resale. It is not in the business for a long period of time. (2) [4]

(c) Continuity of the business is assumed for an indefinite period. (1)
 The cost of the non current (fixed) asset can be spread over the life of the asset. (1)
 Non current (fixed) assets will be shown at their book value in the balance sheet and not their expected sale values. (1)
 An estimated cost that must be included in the income statement. (1) [Max 2]

(d) Property (land and buildings) \$150 000
 Less Land \$80 000
\$70 000 × 2% = \$1 400 (1)

(e) Disposal Account

	\$		\$	
Computer equipment	12 000 (1)	Depreciation	5 250 (2)	
Profit and Loss (Income Statement)	<u>250 (1) of</u>	Cash/Trade receivables	<u>7 000 (1)</u>	
	<u>12 250</u>		<u>12 250</u>	[5]

(f) 1. Capital (1)
 2. Revenue (1)
 3. Capital (1) [3]

[Total: 17]

3 (a) (i)

	\$		\$	
<u>Assets</u>				
Office equipment	16 000			
Trade receivables (debtors)	14 200			
Other receivables (prepaid expenses)	100			
Cash (bank)	<u>3 500</u>			
			33 800 (1)	
<u>Liabilities</u>				
Non-current liabilities (6% Loan)	10 000			
Other payables (accrued rent)	<u>400</u>			
			<u>10 400 (1)</u>	
Capital			23 400 (1)	[3]

(ii)

	\$		
Receipts of consultancy fees	74 000 (1)		
Trade receivables (debtors) at 31 March 2010	<u>11 000 (1)</u>		
	85 000		
Trade receivables (debtors) at 1 April 2009	<u>14 200 (1)</u>		
Consultancy fees for the year	70 800		[3]

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(b) Indira – Income statement (profit and loss account) for the year ended 31 March 2010

	\$	\$	
Consultancy fees		70 800	(1)of
less			
Depreciation on equipment	3 250		
Wages	23 600		
Finance costs (loan interest)	600		(1)
General expenses (12 900 + 100 – 500)	12 500		(2)
Rent (9 000 – 400 + 600)	<u>9 200</u>		(2)
		<u>49 150</u>	
Profit for the year (net profit)		<u>21 650</u>	(1)of [7]

(c) Balance of assets, liabilities, trade receivables (debtors), trade payables (creditors) can readily be obtained.
 Individual transactions will be recorded and can be located easily.
 Accuracy of the accounts can be checked at regular intervals.
 Profit can be calculated at points in the accounting year.
 The accounts can be presented to the bank in order to obtain a loan or overdraft facility.
2 marks per advantage × 2 [4]

(d) (i) Office supervisor wages for one month:

		\$	
Basic pay	=	1 000	
10 hours × \$8	=	<u>80</u>	
		1 080	(1)
Less 15% deductions		<u>162</u>	(1)of
Net payment		<u>918</u>	(1)of [3]

(ii)		\$	
Gross pay		1 080	
Plus 10% contribution		<u>108</u>	(1)of
Cost of employment		<u>1 188</u>	(1)of [2]

[Total: 22]

4 (a) (i) Gross profit to revenue (sales) percentage $\frac{70\,000}{200\,000(1)} \times 100(1) = 35\%(1)$ [3]

(ii) Working capital ratio (current ratio) $\frac{60\,000 + 16\,000(1)}{35\,000 + 5\,000(1)} = 1.9:1(1)$ [3]

(iii) Quick ratio (acid test) $\frac{16\,000(2)}{35\,000 + 5\,000(1)} = 0.4:1(1)$ [4]

(iv) Profit for the year (net profit) to capital percentage $\frac{5\,000}{100\,000(1)} \times 100(2) = 5\%(1)$ [4]

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- (b) (i) At 0.4:1 this is low for a business buying and selling goods on credit.
Inventory (stock) levels are high resulting in high trade payables (creditors).
The business has no cash available to meet trade payables (creditors).
2 marks for one point [2]
- (ii) At 5% the level of return is low when compared to the risk of the business.
2 marks [2]
- (c) (i) Reduced selling price
Increased purchase costs of goods
One point × 2 marks [2]
- (ii) Higher levels of inventory (stock)
Difficulty in collecting debts.
Increased expenses reducing cash available to pay trade payables (creditors).
One point × 2 marks [2]

[Total: 22]

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SGC Ltd

Income statement (trading and profit and loss account) for the year ended 30 April 2010

	\$	\$	
Revenue (sales)		370 000	(1)
Inventory (stock) of finished goods at 1 May 2009	48 500		(1)
Raw materials (purchases) of finished goods	178 000		(1)
Less Raw materials (purchase) returns	9 000		(1)
Plus Carriage inwards	<u>16 500</u>		(1)
	234 000		
Less Inventory (stock) of finished goods at 30 April 2010	<u>57 000</u>		(1)
Cost of sales		<u>177 000</u>	
Gross profit		193 000	
Less			
Office expenses (19 750 – 450)	19 300		(2)
Office salaries (59 300 + 1 800)	61 100		(2)
Provisions for depreciation –			
Computer equipment	13 000		(1)
Office equipment	8 000		(1)
Other operating (Sundry) expenses	9 800		(1)
Advertising and marketing	24 000		(1)
Finance costs (debenture interest) (3 000 + 3 000)	6 000		(2)
Increase in provision for doubtful debts	<u>600</u>		(1)
		<u>141 800</u>	
Profit for the year (Net profit)		51 200	[17]
Less Appropriations:			
Transfer to the General Reserve	20 000		(1)
8% Preference dividend	16 000		(1)
Ordinary dividend	<u>10 000</u>		(1)
		<u>46 000</u>	
Retained profit for the year		5 200	
Retained profit brought forward		<u>1 300</u>	(1)
Retained profit carried forward		<u>6 500</u>	(1) [5]

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Balance Sheet as at 30 April 2010

	\$ Cost	\$ Depr'n	\$ NBV
<u>Non-current (fixed) assets</u>			
Property (Land and buildings)	250 000		250 000 (1)
Computer equipment	80 000	41 000	39 000 (1)
Office fixtures and fittings	<u>40 000</u>	<u>23 000</u>	<u>17 000 (1)</u>
	<u>370 000</u>	<u>64 000</u>	306 000
<u>Current assets</u>			
Inventory (stock)		57 000	(1)
Trade receivables (debtors)	42 000		
Less: provision for doubtful debts	<u>(2 100)</u>		
		39 900	(2)
Other receivables (Prepaid office expenses)		450	(1)
Cash (bank)		<u>3 450</u>	(1)
		100 800	
Less:			
<u>Current liabilities (amounts due within 12 months)</u>			
Trade payables (creditors)		(35 500)	(1)
Other payables: (accrued office salaries)		(1 800)	(1)
(debenture interest)		(3 000)	(2)
Net current assets		(40 300)	<u>60 500 (1)</u>
			366 500
Less			
Non-current liabilities (12% Debentures repayable 31.12.2020)			<u>(50 000) (1)</u>
			<u>316 500</u>
<u>Financed by:</u>			
Share capital (authorised and issued share capital)			
100 000 \$0.50 Ordinary shares			50 000 (1)
200 000 \$1.00 8% preference shares			200 000 (1)
Reserves			
General reserve (40 000 + 20 000)			60 000 (1)
Unappropriated profit and loss 1 May 2009			<u>6 500 (1)</u>
			<u>316 500</u>

Suitable alternative layouts accepted

[18]

[Total: 40]