

**MARK SCHEME for the May/June 2012 question paper  
for the guidance of teachers**

**7110 PRINCIPLES OF ACCOUNTS**

**7110/21**

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.

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1 (a) Books of Yang  
Win account

		\$			\$		
Mar 1	Balance b/d	3000	(1)	Mar 20	Sales returns	160	(2)
Mar 17	Sales	800	(1)	Mar 30	Bank	650	(1)
		<u>3800</u>		Mar 30	Bad debt (1)	<u>2990</u>	(1 of)
						<u>3800</u>	

[7]

(b) Credit note (1) [1]

(c) Journal (1) [1]

(d) (i) To check the arithmetical accuracy of the double entry.  
To provide a basis for the preparation of financial statements.  
It is 'prima facie' evidence of the balancing of the accounts. [2]

(ii)

Account	Debit/Credit
Provision for depreciation	Credit (1)
Inventory	Debit (1)
Bank (overdraft)	Credit (1)
Wages	Debit (1)

[4]

(e) Omission  
Commission  
Principle  
Compensation  
Original entry  
Reversal  
(1) × 3 points [3]

(f) Journal

	Dr		Cr	
	\$		\$	
Wilbur	12000			(1)
Sales		12000		(1)

[2]

[Total: 20]

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2 (a) Purchases ledger control account

	\$		\$		
Mar 31	Purchase returns	900 (1)	Mar 1	Balance b/f	15 300 (1)
Mar 31	Bank	82 450 (1)	Mar 31	Purchases	77 850 (2) (1 of)
Mar 31	Discount received	1 350 (1)	Mar 31	Refunds	700 (1)
Mar 31	Balance c/d	<u>9 150 (1)</u>			
		<u>93 850</u>			<u>93 850</u>

[8]

(b) Check on the arithmetical accuracy of the ledgers

Provide information for financial statements

Financial statements can be prepared quickly

Helps to detect fraud

Helps to detect errors (1) × 2 points

[2]

(c) (i) 140 hours × \$6 = \$840  
6 hours × \$9 = \$54

\$894 (1)

Less tax \$160 (1)

Net pay \$734 (1)

[3]

(ii) Payment to Hui \$894 (of)

On costs \$95 (1)

Cost of employing Hui \$989 (1 of)

[2]

(d)

	Dr	Journal	CR	
	\$		\$	
Wages and salaries	989 (1)			
Bank			734 (1)	
Tax authorities			255 (2)	

[4]

[Total: 19]

3 (a)

Trinity Social Club  
Trial Balance at 30 April 2012

	Dr	Cr	
	\$	\$	
Fixtures and fittings	1600		
Donations received		150	
Subscriptions		1980	
Rent	1400		
Sales of refreshments		2500	
General expenses	780		
Purchases of refreshments	1150		
Bank overdraft		100	
Accumulated fund		<u>200</u>	
	<u>4930</u>	<u>4930</u>	

(1) for every two correct answers in the trial balance + (1) for correct Accumulated fund [5]

(b) (i) Subscriptions account

		\$			\$		
Apr 30	Income and expenditure	2015	(1)	Apr 30	Bank	1980	(1)
Apr 30	Balance c/d (in advance)	<u>25</u>		Apr 30	Balance c/d (in arrears)	<u>60</u>	
		<u>2040</u>				<u>2040</u>	
May 1	Balance b/d (in arrears)	60	(1)	May 1	Balance b/d (in advance)	25	(1)

[4]

(ii) Refreshment Trading Account for the year ended 30 April 2012

	\$	\$	
Sales of refreshments		2500	
Less			
Purchases of refreshments (1150 + 75)	1225		(1)
Less Inventory of refreshments	<u>430</u>		
Cost of sales		<u>795</u>	(1)
Profit on refreshments		<u>1705</u>	(1 of)

[3]

(c) Income and Expenditure Account for the year ended 30 April 2012

	\$	\$	
Income			
Subscriptions		2015	(1 of)
Profit on refreshments		1705	
Donations		<u>150</u>	
		3870	(1 of)
Less expenditure			
Rent	1400		
General expenses (780 + 170)	950		(1)
Depreciation on fixtures and fittings	<u>240</u>		(1)
		<u>2590</u>	
Surplus		<u>1280</u>	(1 of)

[5]

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<b>(d) Receipts and payments</b>	<b>Income and expenditure</b>
Has a balance of the account brought down from the previous year	Calculates a surplus or deficit
Entries recorded throughout the year	Entries made at end of the year
Non-current assets recorded at cost	Depreciation on non-current assets only
Cash payments recorded	Cash payments adjusted for prepaid/accrued
<b>(2) × 2 points</b>	<b>[4]</b>

**[Total: 21]**

**4 (a) (i)**

Cost of sales  $\$120\,000 \times \frac{100}{125} = 96\,000$  **(3)** **[3]**

**(ii)**

	\$	
Opening inventory	22 500	
Purchases	<u>100 000</u>	<b>(2 + 1 of)</b>
	122 500	
Closing inventory	<u>26 500</u>	
Cost of sales	96 000	<b>(of)</b> <span style="float: right;"><b>[3]</b></span>

**(iii) Expenses**  $\$120\,000 \times (20\% - 8\%) = \$14\,400$  **(3)** **[3]**

**(b) Inventory turnover**  $\frac{96\,000 \text{ (of)}}{(22\,500 + 26\,500)/2 \text{ (2)}} = 3.92 \text{ times}$  **(1 of)** **[3]**

**(c) Reduce inventory levels**  
 Reduce mark up to be more competitive  
 Promotions such as advertise products  
 Offer cash discounts to encourage sales  
**(1) × 2 points** **[2]**

**(d) Revised profit**  $\$9\,600 \text{ (1)} + (\$30\,000 - \$26\,500) \text{ (1)} = \$13\,100 \text{ (1)}$  **[3]**

**(e) Deterioration of inventory**  
 Obsolescence  
 Space required for storage  
 Cost of storage  
 Risk of theft  
**(1) × 3 points** **[3]**

**[Total: 20]**

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5 (a)

Thien

Income Statement for the year ended 31 March 2012

	\$	\$	
Revenue		78 580	
Inventory 1 April 2011	4 690		
Purchases	<u>18 240</u>		
	22 930		
Drawings	(450)		(1)
Returns	<u>(1 600)</u>		(1)
	20 880		
Inventory 31 March 2012	<u>(3 870)</u>		(1)
Cost of sales		<u>(17 010)</u>	(1 of)
Gross profit		61 570	
Plus			
Discount received		330	(1)
Decrease in Provision for doubtful debts		<u>160</u>	(1)
		62 060	
Less			
Loan interest	500		(1)
Equipment repairs	850		(1)
Equipment running expenses (2 650 + 750)	3 400		(2)
General running expenses	8 400		(1)
Wages	15 300		(1)
Insurance (3 640 – 1 350)	2 290		(2)
Power and water	2 300		(1)
Advertising costs	5 100		(1)
Discount allowed	1 650		(1)
Depreciation:			
Lease	2 000		(1)
Equipment	9 400		(2)
		<u>(51 190)</u>	
Profit for the year		<u>10 870</u>	

[20]

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5 (b) Balance sheet at 31 March 2012

	Cost	Accumulated depreciation	NBV	
	\$	\$	\$	
<u>Non current assets</u>				
Leasehold	50 000 (1)	12 000 (1)	38 000 (1)	
Equipment	<u>64 000 (1)</u>	<u>26 400 (1)</u>	<u>37 600 (1)</u>	
	<u>114 000</u>	<u>46 000</u>	<u>75 600</u>	
<u>Current assets</u>				
Inventory		3 870	(1)	
Trade receivables	6 750			
Provision for doubtful debts	<u>540</u>			
		6 210	(2)	
Other receivables		1 350	(1)	
Bank (5 150 – 5 000)		<u>150</u>	(2)	
		11 580		
<u>Current liabilities</u>				
Trade payables (4 010 + 5 000)		9 010	(2)	
Other payables (750 + 500)		<u>1 250</u>	(2)	
		10 260		
Net current assets			<u>1 320</u> (1 of)	
			76 920	
<u>Non current liabilities</u>				
6% Bank loan			<u>(25 000)</u> (1)	
			<u>51 920</u>	
<u>Financed by:</u>				
Capital at 1 April 2011			50 000	
Profit for the year			<u>10 870</u>	
			60 870	
Drawings (8 500 + 450)			<u>(8 950)</u> (2)	
			<u>51 920</u>	
				[20]
				<b>[Total: 40]</b>