

MARK SCHEME for the May/June 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

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1 (a) Cash Book (bank columns)

		\$		\$	
8 April	Sales	1204	1 April	Balance b/d	614
18 April	Trinity Stores	780	2 April	Stanning	88
23 April	Xain	73	8 April	Chong	640
24 April	Li Ye	37	23 April	Zaine	59
			27 April	Pang	94
30 April	Dividend	41 (1)	30 April	Charges	16 (1)
			30 April	MDA Electricity	104 (1)
			30 April	Balance c/d	<u>520 (1)</u>
		<u>2135</u>			<u>2135</u>
1 May	Balance b/d	520 (1of)			

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(b) Bank Reconciliation Statement at 30 April 2014

	\$	\$
Balance as per bank statement		469
Plus		
Amount not yet credited – Xain	73 (1)	
Li Ye	<u>37 (1)</u>	
		110
		<u>579</u>
Less		
Cheque not yet presented – Zaine		<u>59 (1)</u>
Balance as per cash book		<u>520 (1of)</u>

[4]

(c) Standing order (1) [1]

(d) Trinity Stores account

	\$	\$
1 April	Balance b/d	800 (1)
8 April	Sales	720 (1)
		<u>1520</u>
1 May	Balance b/d	640 (1)
10 April	Sales returns	80 (1)
18 April	Bank	780 (1)
	Discount allowed	20 (1)
30 April	Balance c/d	<u>640</u>
		<u>1520</u>

[6]

(e) Credit note (1) [1]

(f) Bulk purchases
 Enable Trinity Stores to sell and make a profit
 To attract repeat business
 They are in the same trade
(1) × 2 points [2]

[Total: 19]

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2 (a)

		Insurance account			
		\$		\$	
1 April 2013	Balance b/d	500		31 March 2014	Income statement (1) 4350 (1)
31 March 2014	Bank	4000 (1)			Balance c/d 150
		<u>4500</u>			<u>4500</u>
1 April 2014	Balance b/d	150 (1)			

		Commission receivable account			
		\$		\$	
31 March 2014	Income statement (1)	1650 (1)		1 April 2013	Balance b/d 250
		<u>1650</u>		To 31 March 2014	Bank 1200 (1)
		<u>1650</u>		31 March 2014	Balance c/d 200
1 April 2014	Balance b/d	200 (1)			<u>1650</u>

[8]

(b)

		Journal		
		Dr	Cr	
		\$	\$	
Purchases	450			
Cash			450	(1) Both
Purchases	360			(1)
C Maxley			360	(1)
Motor vehicle	6000			(1) Both
Purchases			6000	
Purchases	1640			(1)
Y Li			1640	(1)

[6]

(c)

		Type of error	Effect on gross profit
1	Goods purchased for cash, \$450, had not been recorded in the books.	<i>Omission</i>	<i>Decrease \$450</i>
2	Goods purchased on credit from C Maxley, \$950, had been recorded in the books as \$590.	Original entry (1)	Decrease \$360 (1)
3	A purchase of a motor vehicle, \$6000, had been recorded in the purchases account.	Principle (1)	Increase \$6000 (1)
4	Goods purchased on credit from Y Li, \$820, had been credited to the purchases account and debited to Y Li.	Reversal (1)	Decrease \$1640 (1)

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[Total: 20]

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3 (a)	160 hours @ \$6 =	960	
	20 hours @ \$9 =	<u>180</u>	
		1140 (1)	
	Tax and social security	<u>240 (1)</u>	
	Net pay	900 (1)	[3]

(b)	Millenium Social Club		
	Café Income Statement for the year ended 30 April 2014		
		\$	\$
	Revenue		41 000
	Less		
	Opening inventory	930	
	Purchases (12 400 + 1 100 (1) – 1 250 (1))	<u>12 250</u>	
		13 180	
	Closing inventory	<u>(790) (1)</u>	
	Cost of sales	12 390	
	Less expenses:		
	Wages and taxes (14 000 + 1 140 (1) + 114 (1))	15 254	
	Heat and light	600 (1)	
	Depreciation on equipment and fixtures	<u>900 (1)</u>	
			(29 144)
	Profit on café		<u>11 856</u>
			<u>41 000</u>

(c)	Millenium Social Club		
	Income and Expenditure Account for the year ended 30 April 2014		
		\$	\$
	Income:		
	Subscriptions (5 800 + 750 (1) – 400 (1) + 600 (1))		6 750
	Profit on café		11 856 (1of)
	Donations		<u>3 100 (1)</u>
			21 706
	Less Expenditure:		
	Heat and light	600 (1)	
	Depreciation on equipment and fixtures	900 (1)	
	Bank loan interest	800 (1)	
	General expenses	7 600 (1)	
	Rent	4 000 (1)	
			(13 900)
	Excess of income over expenditure		<u>7 806</u>
			<u>21 706</u>

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[Total: 20]

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4 (a) (i) $\$300\,000 \times 20\% = \$60\,000$
 Cost of goods sold $\$300\,000 - \$60\,000 = \$240\,000$ (2) [2]

(ii)	\$		
Opening inventory	120 000	(2)	
Purchases	<u>170 000</u>		
	290 000		
Closing inventory	<u>50 000</u>		
Cost of sales	240 000	(1of)	[3]

(b) Inventory becomes obsolete
 Holding costs of storage etc.
 Space occupied by storage
 Deterioration/damage of inventory
 Risk of theft
 Liquidity problems
 (1) × 2 points [2]

(c) (i) $\frac{\$50\,000 + 11\,000 + 5\,000}{60\,000} = \frac{66\,000}{60\,000} = 1.1:1$ (1) [3]

(ii) $\frac{\$11\,000 + 5\,000}{60\,000} = \frac{16\,000}{60\,000} = 0.27:1$ (1) [3]

(d) The current ratio is low (1) compared to the yardstick of 2:1 (1)
OR
 The current ratio is low (1) due mainly to a high level of trade payables (1) [2]

(e)

	Current assets	Current liabilities	Working capital ratio (current ratio)
1 Repaid a \$40 000 long term bank loan.	<i>Decreased \$40 000</i>	<i>No effect</i>	<i>Decreased</i>
2 Purchased \$20 000 of non-current assets on credit.	No effect (1)	Increased \$20 000 (1)	Decreased (1)
3 Sold inventory for \$20 000 on credit (cost \$15 000).	Increased \$5 000 (1)	No effect (1)	Increased (1)

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[Total: 21]

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5	Chan and Fong		
	Income Statement and Appropriation Account for the year ended 30 April 2014		
	\$	\$	
Revenue		480 500	
Less Returns		<u>(11 800)</u>	
		468 700 (1)	
Inventory at 1 May 2014	47 700		
Purchases	<u>209 000</u>		
	256 700		
Less Returns	<u>(10 500) (1)</u>		
	246 200		
Carriage inwards	<u>3 400 (1)</u>		
	249 600		
Less Inventory at 30 April 2014	<u>(38 350)</u>		
Cost of sales		<u>(211 250) (1)</u>	
Gross profit		257 450 (1of)	
Less Carriage outwards	10 200 (1)		
Office expenses (36 500 – 4 000)	32 500 (1)		
Selling expenses	30 800 (1)		
Wages and salaries (80 000 – 5 000)	75 000 (1)		
Heat and light (4 750 + 750)	5 500 (1)		
Bank loan interest (9 000 + 7 000)	16 000 (1)		
Bad debt	7 500 (1)		
Increase in provision for doubtful debts	750 (1)		
Provisions for depreciation:			
Motor vehicles	5 000 (1)		
Fixtures and fittings	<u>3 000 (1)</u>		
		<u>(186 250)</u>	
Profit for the year		71 200	
Plus Interest on drawings:			
Chan	300 (1)		
Fong	<u>500 (1)</u>	<u>800</u>	
		72 000	
Less Interest on capital:			
Chan	3 000 (1)		
Fong	<u>2 000 (1)</u>	<u>(5 000)</u>	
		67 000	
Salary Fong		<u>(10 000) (1)</u>	
		57 000	
Share of profit:			
Chan	38 000 (1of)		
Fong	<u>19 000 (1of)</u>	<u>57 000</u>	
		<u>57 000</u>	[22]

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(b) Current accounts

Details	Chan \$	Fong \$	Details	Chan \$	Fong \$
Drawings	6 000	10 000 (1)	Balance b/d	1 500	4 000
Drawings salary		5 000 (1)	Interest on capital	3 000	2 000
Int on drawings	300	500 (1)	Salary		10 000
Balance c/d	<u>36 200</u>	<u>19 500</u>	Share of profit	38 000	19 000 (1of)
	<u>42 500</u>	<u>35 000</u>		<u>42 500</u>	<u>35 000</u>
			Balance b/d	36 200	19 500

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(c)

Chan and Fong
Statement of Financial Position at 30 April 2014

	\$ Cost	\$ Accumulated depreciation	\$ NBV
<u>Non-current assets</u>			
Land and buildings	250 000	–	250 000
Motor vehicles	45 000	30 000	15 000 (1)
Fixtures and fittings	<u>30 000</u>	<u>15 000</u>	<u>15 000</u> (1)
	<u>325 000</u>	<u>45 000</u>	280 000
<u>Current assets</u>			
Inventory		38 350 (1)	
Trade receivables	47 500		
Less: provision for doubtful debts	<u>(2 850) (1)</u>		
		44 650 (1of)	
Other receivables		4 000 (1)	
Bank (34 500 – 2 000 (1))		<u>32 500</u>	
		119 500	
Less:			
<u>Current liabilities</u>			
Trade payables		36 050 (1)	
Other payables: (750 (1) + 7 000 (1))		<u>7 750</u>	
		(43 800)	
Net current assets			<u>75 700 (1of)</u>
			355 700
Less			
<u>Non-current liabilities</u>			
8% loan repayable 30 March 2016			<u>(200 000) (1)</u>
			<u>155 700</u>
Capital accounts:			
Chan		60 000	
Fong		<u>40 000</u>	
			100 000 (1)
Current accounts:			
Chan		36 200 Cr	
Fong		<u>19 500 Cr</u>	
			<u>55 700 (1of)</u>
			<u>155 700</u>
			[14]
			[Total: 40]