CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2013 series

7110 PRINCIPLES OF ACCOUNTS

7110/22 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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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CAMBRIDGE
International Examinations

1 (a)

Journal

	Dr	Cr	
	$	$	
Non-current assets at NBV	14 000		
Trade receivables	3 012		
Insurance	260		
Trade payables		1 298	
Rent		350	
Bank overdraft		324	
Capital		15 300	**(2) (1) of**
	17 272	17 272	**(1) of both same**

Assets and liabilities at 1 May 2012 **(1)**
To record capital at 1 May 2012 **[4]**

(b)

Insurance account

		$			$
2012			2013		
May 1	Balance b/d	260 **(1)**	April 30	Income Statement	900 **(1) of**
2013					
April 30	Bank/cash	840 **(1)**		Balance c/d	200
		1 100			1 100
2013			2013		
May 1	Balance b/d	200 **(1) of debit only**			

Year + all dates (1) **[5]**

(c)

Rent account

		$			$
2013			2012		
April 30	Bank/cash	11 350 **(1)**	May 1	Balance b/d	350 **(1)**
			2013		
	Balance c/d	1 000	April 30	Income statement	12 000 **(1) of**
		12 350			12 350
2013			2013		
			May 1	Balance b/d	1 000 **(1)**

Year + all dates (1) **[5]**

(d) Accural (matching) principle **(2)** **[2]**

(e) Capital receipts arise from selling non-current assets, **(2)** and revenue receipts arise from day-to-day business activities **(2)**.

Capital receipts arise from owners/lenders providing additional capital **(2)** and revenue receipts from the sale of goods **(2)**.

Capital receipts are recorded in the balance sheet **(2)** and revenue receipts are recorded in the income statement **(2)**. **[max 4]**

(f)

Transaction	Capital receipt	Revenue receipt
Cash sales		√**(1)**
Loan from bank	√**(1)**	
Discount received		√**(1)**
Commission received		√**(1)**
Sale of a motor vehicle	√**(1)**	

[5]

[Total: 25]

2 **(a)** General Journal

		Dr	Cr
		$	$
1	Commission **received**	120 **(1)**	
	Suspense		120 **(1)**
2	No debit required	– **(1)**	
	Suspense		824 **(1)**
3	Insurance	90 **(1)**	
	Suspense		90 **(1)**
4	Suspense	108 **(1)**	
	Sales returns/returns inwards		108 **(1)**

[8]

(b) Suspense account

2013		$	2013		$
May 31	Balance on TB	926	May 31	Commission received	120 **(1)**
	Sales returns	108		Trade receivables	824 **(1)**
		(1)		Insurance	90 **(1) of**
		1034			1034

[4]

(c) Allow any **three** from the following errors.

(Omission) Transaction is omitted completely from books. **(2)**

(Commission) Correct amount posted to correct side of the ledger in the same class of account, but to the wrong account. **(2)**

(Principle) Correct amount on the correct side in the wrong class of account. **(2)**

(Complete reversal) A transaction that should be debited is credited or vice versa. **(2)**

(Original entry) The original figure entered is incorrectly entered in the books of prime entry. **(2)**

(Compensating: error) One error(s) cancels out another error(s) of the same amount. **(2)**

[max 6]

[Total: 18]

3 **(a)** Employee 001

	$	
Gross pay	2200	
Tax	(440) **(1)**	
Employee's social security contributions	(132) **(1)**	
Net pay	1899	

Employee 002

	$	
Gross pay	2600	
Tax	(520) **(1)**	
Employee's social security contributions	(156) **(1)**	
Charitable donations	(25) **(1)**	
Net pay	1899	**[5]**

(b)

	$	
Total gross pay	4800 **(1)**	
Employer's social security contributions	432 **(1)**	
Total cost	5232 **(1)**	**[3]**

(c) Timesheets **(1)**
Clock cards **(1)**
Swipe cards/used with a computer system **[max 2]**

(d) An employee may choose to have **voluntary** deductions from gross pay.
Not required by law
Not mandatory/compulsory
Employee pays by choice/willingly **[max 1]**

[Total: 11]

4 (a) (i)

	$	
Sales (Cost of sales $90 000 + 25%)	112 500	**[2]**

(ii) Purchases

	$		
Inventory 30 April 2012	14 841		
Purchases	96 318 **(2)**		
Inventory 30 April 2013	(21 159)		
Cost of goods sold		90 000	
Gross profit		22 500	
Administration expenses	4 890		
Selling expenses	7 485	(12375)	**[2]**

(iii) 10 125 **(2)/(1) of** **[2]**

(b)

	Workings	**30 April 2013**	**30 April 2012**
Gross profit margin (gross profit/sales)	$22 500 **(1) of** ×100 = $112 500 **(1) of**	20%	25%
Net profit margin (net profit/sales)	$10 125 **(1) of** ×100 = $112 500 **(1) of**	9%	11%
Rate of inventory turnover	Cost of goods sold Average inventory $90 000 **(1) =** $18 000 **(1)** **OR** Average inventory ×365 Cost of goods sold $18 000 **(1)** × 365 = $90 000 **(1)**	5 times **OR** 73 days	8 times **OR** 45.6 days
Return on capital employed (ROCE)	Net profit × 100 Capital $10 125 **(1) of** ×100 = $101 250 **(1)**	10%	12%

[8]

(c) Accept comments on own figures from **(b)**

Overall profitability was lower in 2013 **(1)**
Overall all the profitability ratios have fallen **(1)**
Gross profit and net profit (margin) have both fallen **(2)**

The gross profit margin has fallen in 2013 **(1)**
from 25% to 20%/or by 5% **(1)**
because selling price has been decreased **(1)**
or cost of sales has increased **(1)** [max 3]

The net profit margin has fallen in 2013 **(1)**
from 11% to 9%/or by 2% **(1)**
because the gross profit is lower **(1)**
expenses are higher **(1)** [max 3]

The return on capital employed has fallen in 2013 **(1)**
from 12% to 10%/or by 2% **(1)**
because net profit is lower **(1)**
capital employed is higher/taken a long term loan **(1)** [max 3]

The rate of inventory turnover has decreased in 2013 **(1)**
from 8 times to 5 times/or by 3 times **(1)**
or from 45.6 days to 73 days/or by 27.4 days **(1)**
because they are selling the inventory more slowly **(1)**
closing inventory has increased **(1)** [max 3]

[max 6]

(d) Reduce inventory levels by reducing purchases **(2)**

Give discounts to get rid of surplus stock **(2)**

Promote sales by offering cash/trade discounts **(2)**

Sales promotions/advertising to increase sales **(2)**

Reduce selling price to sell more **(2)**

Reduce mark up on cost of sales **(2)**

Use a just-in-time stock control system **(2)**

Find cheaper suppliers/buy in bulk to reduce the cost of sales **(2)** **[max 6]**

[Total: 26]

5 (a)

Patricia Chin
Income Statement for the year ended 31 March 2013 **(1) both**

	$	$	$
Revenue			119 140
Less cost of sales			
Inventory 1 April 2012		5 430 **(1)**	
Purchases	60 200		
Purchases returns	(2 900) **(1)**	57 300	
		62 730	
Inventory 31 March 2013		4 200	(58 530) **(1) of**
Gross profit			60 610 **(1) of**
Add Other income			
Discount received			884 **(1)**
Decrease in provision for doubtful debts			362 **(1)**
Less Expenses			
Wages		20 960 **(1)**	
General expenses ($9 100 – $2 000)		7 100 **(1)**	
Insurance ($12 600 – $1 800)		10 800 **(1)**	
Motor expenses ($5 670 + $225)		5 895 **(1)**	
Discount allowed		1 428 **(1)**	
Loan interest		2 100 **(1)**	
Bad debts		246 **(1)**	
Depreciation:			
Premises ($67 000 × 2%)		1 340 **(2)**	
Fixtures and fittings ($20 000 + $2 000 × 8%)		1 760 **(2)**	
Motor vehicle ($18 000 – $11 520 × 20%)		1 296 **(2)**	(52 925)
Profit for year			8 931

[20]

(b)

Patricia Chin
Balance Sheet (Statement of Financial Position) as at 31 March 2013

	Cost	Accumulated Depreciation	Carrying amount (NBV)
Non-current			
	$	$	$
Premises	67 000	4 020	62 980 **(1)**
Fixtures and fittings	22 000	11 360	10 640 **(1) of**
Motor vehicle	18 000	12 816	5 184 **(1) of**
	107 000	28 196	
Current assets			
Inventory		4 200 **(1)**	
Trade receivables	7 300 **(1)**		
Provisions for doubtful debts	(438) **(1) of**	6 862	
		1 800 **(1)**	
		12 862 **(1) of**	
Current liabilities			
Trade payables	4 920 **(1)**		
Other payables	2 325		
(Motor expenses $225 **(1)**			
Loan interest $2 100) **(1) of**			
Bank overdraft	3 130 **(1)**	(10 375) **(1) of**	
Net current assets			2 487
			81 291
Non-current liabilities **(1)**			
7% bank loan			(30 000) **(1)**
			51 291
Financed by			
Capital			56 000 **(1)**
Profit for the year			8 931 **(1) of**
			64 931
Drawings ($12 840 **(1)** + $800 **(1)**			51 291

[20]

[Total: 40]