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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May 1 Balance b/d 1 000 (1) Year + all dates (1)		12 350)						
Year + all dates (1)	2013					Polonoo I	o/d	1 000	(1)
				way I	E	balance i	JIU	1 000	(')
(d) Accurat (matching) principle (2)	Year + all	dates (1)							[{
(d) Accurat (matching) principle (2)									
	(d) ^	ol (motobing) principle	(1)						[2

Page 3	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – May/June 2013	7110	22

(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]

Page 4		ge 4 Mark Scheme Syllab		labus	Paper		
		GCE C) LEVEL – M	ay/June 2013 7	110	22	
(a)		Gene	eral Journal				
			Dr	Cr			
			\$	\$			
1	Commis	sion received	120 (1)				
	Sus	pense		120 (1)			
2		t required	– (1)				
		pense		824 (1)			
3	Insuranc	•	90 (1)				
	Sus	pense		90 (1)			
4	Suspens	•	108 (1)				
	Sales re	eturns/returns in	wards	108 (1)			
(b)) Suspense account 2013 \$		account				
			\$	2013	\$		
	May 31	Balance on TB	926	May 31 Commission receiv	ed 120	(1)	
		Sales returns	108	Trade receivables	824	(1)	
			(1) Insurance	90	(1) of	

(c) Allow any three from the following errors.

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

1034

(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]

[4]

1034

Pa	ge 5	Mark Scheme	Syllabus	Paper
		GCE O LEVEL – May/June 2013	7110	22
3 (a)	Employe	e 001 \$		
	Tax	ss pay 220 (44) bloyee's social security contributions <u>(13)</u>	0) (1) <u>2)</u> (1)	
	Tax Emp	ss pay 260 (52 bloyee's social security contributions (15 ritable donations <u>(2</u>	0) (1) 6) (1) <u>5)</u> (1)	[5]
(b)	Emp	oloyer's social security contributions 43	0 (1) <u>2 (</u> 1) 2 (1)	[3]
(c)	Timeshe Clock ca Swipe ca			[max 2]
(d)	Not requ Not man	oyee may choose to have voluntary deductions fro ired by law datory/compulsory	m gross pay.	
	Employe	e pays by choice/willingly		[max 1]
				[Total: 11]

	Page 6			M	ark Scheme		Syllabus	Paper
				GCE O LE\	GCE O LEVEL – May/June 2013		7110	22
4	(a)	(i)	Sale	s (Cost of sales \$90	000 + 25%)	112	\$ 2 500	[2]
			Invei Purc Invei Cost	hases ntory 30 April 2012 hases ntory 30 April 2013 of goods sold s profit	\$ 14 841 96 318 (2) <u>(21 159)</u>		<u>) 000</u> 2 500	
				inistration expenses ng expenses	4 890 <u>7 485</u>	_(1:	2375)	[2]
	((iii)				<u>10</u>	<u>) 125</u> (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 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)	<u>Net profit</u> × 100 Capital <u>\$10 125</u> (1) of ×100 = \$101 250 (1)	10%	12%

[8]

Page 7		Mark Scheme	Syllabus	Paper
		GCE O LEVEL – May/June 2013	7110	22
(c)	Accept c	omments on own figures from (b)		
	Overall a	profitability was lower in 2013 (1) Il the profitability ratios have fallen (1) ofit and net profit (margin) have both fallen (2)		
	The gros from 25% because	s profit margin has fallen in 2013 (1) 6 to 20%/or by 5% (1) selling price has been decreased (1) f sales has increased (1)		[max 3
		orofit margin has fallen in 2013 (1) ⁄6 to 9%/or by 2% (1)		
	because	the gross profit is lower (1) s are higher (1)		[max 3
	The return from 12% because	rn on capital employed has fallen in 2013 (1) 6 to 10%/or by 2% (1) net profit is lower (1) mployed is higher/taken a long term loan (1)		[max 3
	The rate from 8 tir or from 4 because	of inventory turnover has decreased in 2013 (1) mes to 5 times/or by 3 times (1) 5.6 days to 73 days/or by 27.4 days (1) they are selling the inventory more slowly (1) nventory has increased (1)		[max 3
	closing ii	Wentory has increased (1)		-
				[max 6
(d)	Reduce i	inventory levels by reducing purchases (2)		
	Give disc	counts to get rid of surplus stock (2)		
	Promote	sales by offering cash/trade discounts (2)		
	Sales pro	omotions/advertising to increase sales (2)		
	Reduce	selling price to sell more (2)		
	Reduce	mark up on cost of sales (2)		
	Use a jus	st-in-time stock control system (2)		
	Find che	aper suppliers/buy in bulk to reduce the cost of sale	es (2)	[max
				[Total: 2

Page 8	Mark Scheme GCE O LEVEL – May/June 2013	Syllabus 7110	Paper 22				
5 (a)	5 (a) Patricia Chin Income Statement for the year ended 31 March 2013 (1) both						
Revenue	\$	\$ 1	\$ 19 140				
Less cost of sales	5						
Inventory 1 April 2	2012 5	430 (1)					
Purchases	60 200						
Purchases return		<u>300</u> 730					
Inventory 31 Mar			<u>58_530)</u> (1) of				
Gross profit			60 610 (1) of				
Add Other income	e						
Discount received	t		884 (1)				
Decrease in provi	ision for doubtful debts		<u>362</u> (1)				
Less Expenses							
Wages	20	960 (1)					
General expense	s (\$9 100 – \$2 000) 7	100 (1)					
Insurance (\$12 60	00 – \$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 a	nd fittings (\$20 000 + \$2 000 × 8%) 1	760 (2)					
Motor veh	icle (\$18 000 – \$11 520 × 20%) <u>1</u>	<u>296</u> (2) (<u>52 925)</u>				
Profit for year			<u>8 931</u>				
			[20]				

[20]

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(b)

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

	Cost	Accumulated Depreciation	Carrying amount (NBV)
Non-current	•		
Premises Fixtures and fittings Motor vehicle	\$ 67 000 22 000 <u>18 000</u> <u>107 000</u>	\$ 4 020 11 360 <u>12 816</u> <u>28 196</u>	\$ 62 980 (1) 10 640 (1) of 5 184 (1) of
Current assets			
Inventory Trade receivables Provisions for doubtful debts	7 300 (1) <u>(438)</u> (1) of	4 200 (1) 6 862 <u>1 800</u> (1) 12 862 (1) of	
Current liabilities			
Trade payables Other payables (Motor expenses \$225 (1) Loan interest \$2 100) (1) of	4 920 (1) 2 325		
Bank overdraft	<u>3_130</u> (1)	(10 375) (1) of	
Net current assets			<u>2 487</u>
Non-current liabilities (1)			81 291
7% bank loan			<u>(30_000)</u> (1) 51_291
Financed by			01 201
Capital Profit for the year			56 000 (1) <u>8 931</u> (1) of 64 931
Drawings (\$12 840 (1) + \$800 (1)			<u>51 291</u> [20]
			[Total: 40]