

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

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.

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1 (a)

Giorgios
Trial Balance at 1 May 2012

	Dr	CR	
	\$	\$	
Bank loan		6000	
Bank	1000		
Cash	600		
Premises	15000		
Inventory	1800		
Trade payable – Early Ltd		1200	
Capital		<u>11200</u> (1cf)	
	<u>18400</u>	<u>18400</u> (1cf both)	[2]

(b)

	Document used by Giorgos	Book of prime entry	Effect on owner's capital
1. Made payment to Early Ltd, \$570, after deducting \$30 cash discount	<i>Cheque counterfoil</i>	<i>Cash book</i>	+\$30
2. Bought office furniture, on credit for \$3 000	(Purchase) invoice (1)	(General) Journal (1)	No effect (1)
3. Paid wages in cash, \$250	Payslip or wages sheet (1)	Cash Book (1)	-\$250 (1)
4. Customer returned goods, list price \$745	Credit note (1)	Sales Returns/Returns Inwards Journal/Book(1)	-\$115 (1)

[9]

(c)

Early Ltd account			
	\$		\$
2012		2012	
May 1 Bank/Cash	570 (1)	May 1 Balance b/d	1200
Discount received	30 (1)		
May 31 Balance c/d	<u>600</u>		
	<u>1200</u>	June 1 Balance b/d	<u>1200</u> 600 (1of)

Marks for correct date, narrative and amount.

[3]

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- (d) To check the arithmetical accuracy of the double entry
 To identify errors in the ledger
 To check the debits equal credits
 To provide a basis for the preparation of financial statements

2 marks per point [2]

- (e) More accurate
 Large amounts of information can be stored on disk
 Speed of processing/Saves time
 Information available at all times
 Security of information/Use of passwords limits access
 Automatic backup
 Can produce financial statements/ reports automatically
 Can process multiple transactions
 Saves money as less staff are employed

(1) × 3 points [3]

[Total: 19]

2 (a)

	Journal		
	DR		CR
	\$		\$
1. Purchases Takka	4000(1)		4000 (1)
2. Nolan North	380(1)		380 (1)
3. Suspense Discount received	6100(1)		6100 (1)
4. Bad debts Long	375(1)		375 (1)

(Award marks for correct account name, correct amount and dr/cr) [8]

(b)

Statement of revised profit			
For the year ended 30 April 2012			
	\$	\$	\$
Draft profit for the year			15500
	Increase	Decrease	No effect
1. Purchases		4000 (1)	11500
2. Sales			No effect(1) 11500
3. Discount	6100(1)		17600
4. Bad debt		375 (1)	17225
	<u>6100</u>	<u>4375</u>	<u>17225</u>
Revised profit for the year			<u>17225</u>

[4]

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- (c) (i) **Accruals/Matching (1)**
 Depreciation is the cost consumed of a non-current asset and should be charged as an expense to the income statement and matched against the income generated by the asset for the financial year. **(2 or 0)**
- (ii) **Money measurement (1)**
 Only items with a monetary value are recorded in the financial statements. **(1)**
 The skill of the workforce cannot be measured in monetary terms. **(1)**
- (iii) **Consistency (1)**
 The same method used to charge depreciation should be used from one year to the next. **(2 or 0)** [9]

[Total: 21]

3 (a)

Dang Ltd
 Appropriation Account for the year ended 31 March 2012.

	\$	\$
Profit for the year (60000 – 14000)		46000 (1)
Less Transfer to the general reserve	25000 (1)	
Dividends – Preference paid	3000 (1)	
Ordinary paid	<u>10000</u> (1)	
		<u>38000</u>
Retained profit for the year (1)		8000 (1of)
Add retained profit <u>brought forward</u> (b/d)		<u>21000</u> (1 + label)
Retained profit <u>carried forward</u> (c/d)		<u>29000</u> (1 + label)

[8]

(b)

Balance Sheet (extract) at 31 March 2012.

	\$	\$
Issued Share capital		
100 000 6% \$0.50 Preference shares	50000 (1)	
100 000 \$1 Ordinary shares	<u>100000</u> (1)	
		150000
Reserves		
General reserve	85000 (1)	
Retained profit/earnings	<u>29000</u> (1of + label)	
		<u>114000</u>
Shareholders' funds/equity (1)		<u>264000</u> (1of)

[6]

- (c) Preference have fixed rate of dividend, ordinary have variable dividends.
 Preference have fixed dividend, ordinary depend in profits/ may receive nothing
 Preference receive dividend first, ordinary receive dividend last.
 Preference shareholders have no voting rights, ordinary shareholders do have voting rights.
 Preference receive payout first on winding up, ordinary receive payment last. [2 or 0]

- (d) Preference holders are owners/shareholders, debenture holders are long term loan creditors
 Debenture holders paid interest, preference holders receive dividend
 Debenture holders are guaranteed interest, preference may not receive dividend.
 Debenture holders are paid interest before preference receive dividend.
 Debenture interest is an expense, preference dividend is an appropriation of profit. [2 or 0]
- (e) Facilitates fair comparison of company's financial statements in different countries.
 To improve reliability of financial statements produced in different countries.
 To improve understanding of financial statements produced in different countries.
 Reference must be made to international/world wide different countries [2 or 0]

[Total:20]

4 (a)

	\$	
Revenue	200000	
Cost of sales	<u>130000</u> (3or 1of)	
Gross profit	70000 (1)	
Expenses	<u>40000</u>	
Profit for the year	<u>30000</u> (1)	[5]

- (b) (i) $\frac{\$30000 \text{ (1cf)} \times 100}{\$350000 \text{ (1cf)}} = 8.57\% \text{ (1cf)}$ [3]
- (ii) $\frac{\$72000 \text{ (1cf)}}{\$60000 \text{ (1cf)}} = 1.2:1 \text{ (1cf)}$ [3]
- (iii) $\frac{\$47000 \text{ (1cf)}}{\$60000 \text{ (1cf)}} = 0.78:1 \text{ (1cf)}$ [3]

(c)

	Current assets	Current liabilities	Working capital ratio (current ratio)
1	+\$5 000	<i>No effect</i>	<i>Increase</i>
2	-\$24 000 (1)	-\$25 000 (1)	Increase(1)
3	+\$8 000 (1)	No effect (1)	Increase (1)

[6]

[Total: 20]

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5 (a)

Su and Li

Income statement (and appropriation account) for the year ended 30 April 2012 (1 both)

	\$	\$
Revenue		380000
Less Returns		<u>11100</u>
		368900(1)
Inventory at 1 May 2011	53750	
Purchases	<u>170000</u>	
	223750	
Less Returns	<u>(8900)(1)</u>	
	214850	
Less Inventory at 30 April 2012	<u>(38500)</u>	
Cost of sales		(176350)(1 cf)
Gross profit		192550 (1of)
Less Expenses		
Carriage outwards	6290(1)	
Administration expenses	25720(1)	
Marketing (17800 + 4000)	21800(1)	
Wages and salaries (69530 – 15000)	54530(1)	
Communication expenses (8900 – 890)	8010(1)	
Loan interest (3600 + 1200)	4800(1)	
Building works/Repairs to air con	4000(1)	
Bad debt	3000(1)	
Increase in provision for doubtful debts	800(1)	
Provisions for depreciation-		
Buildings	2900(2 or 0)	
Equipment	7200 (1)	
Fixtures and fittings	<u>3500(1)</u>	
		(142550)
Profit for the year		50000
Less Appropriations:		
Interest on capital:		
Su	6000	
Li	<u>5000(1 for both)</u>	
		(11000)
		39000
Salary Su		(15000) (1)
		24000
Share of profit:		
Su		14400 (1of)
Li (Profit split must be correct ratio)		<u>9600 (1of)</u>
		24000

[22]

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			Current accounts		
	Su	Li		Su	Li
	\$	\$		\$	\$
Balance b/d		2700	Balance b/d	500	
Drawings	20000	14000 (1)	Interest on capital	6000	5000 (1of for both)
Drawings salary	15000 (1)		Salary	15000	
			Share of profit	14400	9600 (1of for both)
Balance c/d	<u>900</u>		Balance c/d	<u>2100</u>	
	<u>35900</u>	<u>16700</u>		<u>35900</u>	<u>16700</u>
Balance b/d		2100	Balance b/d	900	

(b)

Balance Sheet at 30 April 2012			
	\$ Cost	\$ Accumulated depreciation	\$ NBV
<u>Non-current assets</u>			
Land and buildings	220000	16900	203100 (1of)
Equipment	48000	19200	28800 (1of)
Fixtures and fittings	<u>35000</u>	29500	<u>5500 (1of)</u>
	<u>303000</u>	<u>65600</u>	237400
<u>Current assets</u>			
Inventory		38500	
Trade receivables	55000(1)		
Less: provision for doubtful debts	<u>3300</u>		
		51700 (1of)	
Other receivables		890 (1)	
Bank deposit		<u>5000 (1)</u>	
		96090	
<u>Current liabilities</u>			
Trade payables		20340	
Other payables:		4000 (1)	
		1200 (1)	
Bank overdraft		<u>9150 (1)</u>	
		(34690)	
Net current assets/working capital			<u>61400 (1of + label)</u>
			298800
<u>Non-current liabilities</u>			
6% loan (must state 6%)			<u>(80000) (1)</u>
			<u>218800</u>
<u>Financed by:</u>			
Capital accounts:			
Su		120000	
Li		<u>100000 (1 for both)</u>	
			220 000
Current accounts:			
Su		900 Cr	
Li		<u>(2100) Dr (1of) for both</u>	
			<u>(1200)</u>
			<u>218800</u>

[18]

[Total: 40]