

**MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers**

7110 PRINCIPLES OF ACCOUNTS

7110/22

Paper 2 (Structured), maximum raw mark 100

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)

Three Column Cash Book (Bank columns only)

	\$			\$	
April 27 Sales	630	(1)	April 24 Balance b/d	150	(1)
April 28 Loula	1920	(1)	April 25 Drawings	200	(1)
			April 26 Kerai	388	(1)
			April 26 Susan	720	(1)
			April 29 Wages	430	(1)
			April 30 Balance c/d	<u>662</u>	(1)
	<u>2550</u>			<u>2550</u>	

[8]

(b) May 1 Balance b/d	662		May 1 Balance b/d	686	
May 1 Dividend	<u>24</u>	(1)		<u>686</u>	
	<u>686</u>			<u>686</u>	
May 1 Balance b/d	686	(1of)			

[2]

(c)

Bank Reconciliation Statement at 1 May 2011

	\$	
Balance as per Bank Statement	(804)	Dr (1)
Add:		
Cheque banked – Loula	<u>1920</u>	(2)
	1116	
Less:		
Unpresented cheque-wages	<u>(430)</u>	(2)
Balance as per Cash Book	<u>686</u>	(1of)

Accept alternative presentations i.e. starting with Cash book balance. [7]

(d)

	Ledger account	Book of prime entry	Both a ledger account and a book of prime entry
Stock	✓		
Purchase journal		✓ (1)	
Cash book			✓ (1)
Provision for depreciation	✓ (1)		

[3]

[Total: 20]

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- 2 (a) To account for cost consumed / used during the financial year
 To charge a share of the cost to the income statement for the year
 Reduce the book value of non-current assets in the balance sheet
 To spread the cost over its useful economic life
 Wear & tear, passage of time, obsolescence & depletion (2 per point)
 Comply with accounting principles and concepts, e.g. prudence, matching.
(2–0) × 2 points [max 4]

- (b) Machinery will lose a high proportion of its value in the early years
 Low maintenance costs in early years, higher in later years
 Changes in technology may outdate the machinery
(2–0) × 2 points [2]

- (c) Calculation of depreciation:

	Machinery	Office furniture	Loose tools	
	\$	\$	\$	
Cost/value	80 000	15 000	1 050	
Additions	<u>18 000</u>	-	630	
	-	(1 000)	-	
	98 000	14 000	1 680	
Accum Prov	<u>60 000</u>	<u>4 800</u>		
	38 000	9 200		
Depreciation 25%	<u>9 500</u> (2–0)	<u>1 400</u> (2–0)	280 (2–0)	
Net book value	<u>28 500</u>	<u>7 800</u>	<u>1 400</u>	[6]

- (d)
- | | | | |
|--------------|-----------------------|--|-----|
| | \$ | | |
| Cost | 1 000 | | |
| Depreciation | <u>200</u> (1) | | |
| | 800 | | |
| Sale price | <u>550</u> (1) | | |
| Loss on sale | 250 (1of) | | [3] |

- (e) Non-current assets

	Cost	Accumulated Depreciation	Net book value	
	\$	\$	\$	
Machinery	98 000	69 500 (>60k)	28 500 (1of)	
Office furniture	14 000	6 200 (>5k)	7 800 (1of)	[2]

- (f)

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		✓ (1)
Installation of additional machinery	✓ (1)	
Repairs to office equipment		✓ (1)
Purchase of additional loose tools	✓ (1)	

[4]

[Total: 21]

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3 (a)

	\$		\$	
Bank received	60 500	Bank payments	34 900	
Trade receivables 30 April	<u>8 400</u>	Trade payables 30 April	<u>9 300</u>	
	68 900		44 200	
Trade receivables 1 May	<u>9 750</u>	Trade payables 1 May	<u>10 500</u>	
Sales	<u><u>59 150</u></u> (3)	Purchases	<u><u>33 700</u></u> (3)	[6]

(b)

Tanvir
Income Statement for the year ended 30 April 2011

	\$		\$	
Revenue (sales)			59 150 (1of)	
Less Cost of sales				
Opening inventory	5 250			
Add purchases	<u>33 700</u> (1of)			
	38 950			
Less closing inventory	<u>(11 000)</u>			
Cost of sales			<u>(27 950)</u>	
Gross profit			31 200 (1of)	
Less				
Wages	15 000			
Light & heat	3 350 (1)			
General expenses	6 000			
Loan interest	1 200 (1)			
Loss on sale	250 (1)			
Depreciation	<u>5 000</u> (2)			
			<u>(30 800)</u>	
Profit for the year			<u>400</u> (1of)	[9]

(c)

Balance Sheet at 30 April 2011

	\$	\$	
<u>Non-current assets</u>		42 000	
<u>Current assets</u>			
Inventory	11 000		
Trade receivables	<u>8 400</u> (1)		
	19 400		
<u>Current Liabilities</u>			
Trade payables	9 300		
Accruals	1 450 (1)		
Bank overdraft	<u>10 250</u>		
	21 000		
Net Current Assets		<u>(1 600)</u>	
		40 400	
<u>Long term liabilities</u>			
6% Bank loan		<u>(20 000)</u> (1)	
		<u>20 400</u>	
Capital 1 May 2010		25 000	
Add Profit for the year		<u>400</u> (1of)	
		25 400	
Less Drawings		<u>(5 000)</u> (1)	
		<u>20 400</u>	[5]
			[Total: 20]

4 (a) (i)

	\$		
Opening inventory	5 500		
Purchases	<u>72 000</u>		
	77 500		
Closing inventory	<u>7 500</u>		
Cost of sales	70 000 (1)		
Gross profit (50%)	35 000 (1)		
Revenue	105 000 (1 of)	[3]	
(ii) <u>Cost of sales</u>	\$70 000 (1of) = 10.8 times (1 of)		
Average inventory	\$6 500 (1) (Need 'times')	[3]	
(iii)	\$		
Gross profit	35 000		
Operating expenses	<u>23 500</u>		
Net profit	11 500 (2 or 1of) (if use own gross profit in (a)(i))	[2]	
(iv) $\frac{\text{Net profit}}{\text{Revenue}} \times 100 = \frac{11\,500}{105\,000} \times 100$	(1of) (1of)	= 11% (1 of) (accept 10.9%. need % label)	[3]
(v) $\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{11\,500}{75\,000} \times 100$	(1of) (1)	= 15.3% (1of)	[3]

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(b) The seller will make a **small mark up** (or **low selling price**) on each item (1)
will have a **high volume** of sales (1). [2]

(c)

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.	✓ (1)	
(ii) Increase the inventory by \$20 000.		✓ (1)
(iii) Raise selling prices by 10%.		✓ (1)

[3]

[Total: 19]

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Fu, Li and Yang

Income Statement and Appropriation Account for the year ended 30 April 2011 (1)

	\$	\$
Revenue		209 500
Opening inventory	30 650	
Add Purchases	111 200	
Less returns	<u>(4 750) (1)</u>	
	137 100	
Closing inventory	<u>28 100 (1)</u>	
Cost of sales		<u>109 000 (1)</u>
Gross profit		100 500 (1of)
Discount received		<u>5 300 (1)</u>
		105 800
Rent (7500 + 2500)	10 000 (1)	
Salaries & Wages	42 100	
Heat and light	3 890	
General expenses (16 750 – 4 200)	12 550 (1)	
Marketing	12 050	
Depreciation-		
Motor vehicles	2 560 (2)	
Fixtures	3 000 (2)	
Increase in PDD	<u>750 (2)</u>	
		<u>86 900</u>
Profit for the year		18 900 (1of)
Interest on drawings:		
Fu	500 (1)	
Li	500 (1)	
Yang	<u>600 (1)</u>	
		<u>1 600</u>
		20 500
Interest on capital:		
Fu	1 600 (1)	
Li	1 400 (1)	
Yang	<u>1 000 (1)</u>	
		<u>(4 000)</u>
		16 500
Share of profit:		
Fu	6 600 (1of)	
Li	6 600 (1 of)	
Yang	<u>3 300 (1of)</u>	
		<u>16 500</u>

[24]

(b)

Statement of Financial Position at 30 April 2011

	\$	\$	\$
<u>Non-current assets</u>			
	Cost	Accumulated Depreciation	Net Book Value
Premises			44 750
Motor vehicles	16 000	5 760	10 240 (1of)
Fixtures	<u>30 000</u>	<u>20 500</u>	<u>9 500</u> (1of)
	<u>46 000</u>	<u>26 260</u>	64 490 (1of)
<u>Current assets</u>			
Inventory		28 100	
Trade receivables	45 000		
Less PDD	<u>2 250</u>	(1of) (<1500)	
		42 750 (1of) (providing PDD is deducted)	
Prepaid		4 200 (1)	
Bank		<u>7 560</u>	
		82 610	
less			
<u>Liabilities due in less than one year</u>			
Trade payables	54 700		
Other payables	<u>2 500</u> (1)		
	<u>57 200</u>		
Net current assets (accept working capital)			<u>25 410</u> (1 of labelled)
			<u>89 900</u>

Financed by:

	Fu \$	Li \$	Yang \$	Total \$
Capital:	<u>40 000</u>	<u>35 000</u>	<u>15 000</u> (1)	90 000
Current:				
Opening balance	2 500 Cr	1 500 Cr	(1 000) Dr (1)	
Transfer of capital			10 000 (1)	
Interest on capital	1 600	1 400	1 000 (1of)	
Share of profit	<u>6 600</u>	<u>6 600</u>	<u>3 300</u> (1of)	
	<u>10 700</u>	<u>9 500</u>	<u>13 300</u>	
Interest on drawings	500	500	600 (1of)	
Drawings	<u>10 000</u>	<u>10 000</u>	<u>12 000</u> (1)	
	<u>10 500</u>	<u>10 500</u>	<u>12 600</u>	
Closing balances	<u>200</u>	<u>(1 000)</u>	<u>700</u> (1of)	
				<u>100</u> Dr
				<u>89 900</u>

[16]

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Alternative presentation accepted

Current Accounts

	Fu \$	Li \$	Yang \$		Fu \$	Li \$	Yang \$
Balance b/d			1 000	(1)	Balance b/d	2 500	1 500
Int on Dra'gs	500	500	600	(1 of)	Capital transfer		10 000
Drawings	10 000	10 000	12 000	(1)	Int on cap	1 600	1 400
					Share of profit	6 600	6 600
Balance c/d	200		700	(1 of)	Balance c/d		1 000
	<u>10 700</u>	<u>10 500</u>	<u>14 300</u>			<u>10700</u>	<u>14 300</u>

[16]

[Total: 40]