Cambridge Assessment International Education
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 Structured **October/November 2017**

MARK SCHEME

Maximum Mark: 120

Published

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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Question	Answer				Marks
1(a)(i)	Assets				1
		$	$		
	Inventory	2 250			
	Motor vehicle	9 500			
			11 750		
	Liabilities				
	Weston Water Supplies	700			
	Bank	90			
	5% Bank loan	5 000			
			5 790		
	Capital		5 960	**(1)**	
1(a)(ii)	Owner's capital $5960 (of) + 5% Bank loan $5000 = Capital employed $10 960 **(1)OF**				1

Question	Answer	Marks
1(b)	Weston Water Supplies account	9

Date	Details	$		Date	Details	$	
2017				2017			
May 18	Bank	686	**(1)**	May 1	Balance b/d	700	**(1)**
	Discount received	14	**(1)**	July 16	Water expense	1 500	**(1)**
July 31	Balance c/d	1 500					
		2 200				2 200	
				Aug 1	Balance b/d	1 500	
							(1)OF

Water expense account

Date	Details	$		Date	Details	$	
July 16	Weston Water Supplies	1 500	**(1)**				
July 31	Balance c/d	340		July 31	Income statement **(1)**	1 840	**(1) OF**
		1 840				1 840	
				Aug 1	Balance b/d	340	
							(1)

Question	Answer	Marks
1(c)	matching/accruals principle **(1)** The income for the period must be matched to the expenses incurred for that period. **(1)** This is due to some benefit or service for the period not being paid in that period. **(1)**	3

Question	Answer	Marks
1(d)	<table><tr><td></td><td></td><td>Source document</td><td>Book of prime entry</td></tr><tr><td>July 19</td><td>Sold inventory on credit</td><td>*Sales invoice*</td><td>*Sales journal*</td></tr><tr><td>July 20</td><td>Credit customer returned goods to Aqil</td><td>Credit note **(1)**</td><td>Sales returns journal **(1)**</td></tr><tr><td>July 23</td><td>Paid wages in cash</td><td>Wages sheet/ Payroll **(1)**</td><td>Cash book **(1)**</td></tr><tr><td>July 25</td><td>Purchased motor vehicle on credit</td><td>Purchase invoice **(1)**</td><td>General journal **(1)**</td></tr></table>	**6**

Question	Answer	Marks
2(a)	Simple to calculate Shows same charge each year Does not distort profits Accept other valid points **(1)** X 2 points	**2**
2(b)	<table><tr><td>Year ended</td><td>Machine A</td><td>Machine B</td><td>Total for year</td></tr><tr><td></td><td>$</td><td>$</td><td>$</td></tr><tr><td>31 December 2015</td><td>2400 **(1)**</td><td>800 **(1)**</td><td>3200</td></tr><tr><td>31 December 2016</td><td>1200 **(1)**</td><td>3200 **(1)**</td><td>4400</td></tr></table>	**4**

Question	Answer	Marks
2(c)	Provision for depreciation of machinery account	6

Date	Details	$		Date	Details	$	
2015				2015			
				Jan 1	Balance b/d	2 400	**(1) OF**
Dec 31	Balance c/d	5 600		Dec 31	Income st'nt	3 200	**(1) OF**
		5 600				5 600	
2016				2016			
June 30	Disposal	6 000	**(1)**	Jan 1	Balance b/d	5 600	**(1) OF**
Dec31	Balance c/d	4 000		Dec 31	Income statement	4 400	**(1) OF**
		10 000				10 000	
				2017			
				Jan 1	Balance b/d	4 000	**(1) OF**

Question	Answer	Marks
2(d)	Disposal account	3

Date	Details	$		Date	Details	$	
2016				2016			
June 30	Machinery	12 000		June 30	Provision for dep	6 000	**(1) OF**
Dec 31	Income statement	1 500	**(1) OF**	June 30	Bank	7 500	**(1)**
		13 500				13 500	

Question	Answer	Marks
2(e)	Income arising from normal trading activity **(1)** and are entered in the income statement. **(1)**	2

Question	Answer	Marks
2(f)	<table><tr><td></td><td>Capital expenditure</td><td>Revenue expenditure</td><td>Capital receipt</td><td>Revenue receipt</td></tr><tr><td>1. Sold machine received a cheque</td><td></td><td></td><td>✓ **(1)**</td><td></td></tr><tr><td>2. Replaced broken machine part</td><td></td><td>✓ **(1)**</td><td></td><td></td></tr><tr><td>3. Installation of machine</td><td>✓ **(1)**</td><td></td><td></td><td></td></tr></table>	**3**

Question	Answer	Marks
3(a)	Digby Products Manufacturing account for the year ended 31 March 2017	**12**

		$		$	
	Inventory of raw materials 1 April 2016	27 000			
	Purchases of raw materials less returns outwards (101 900–6 650)	95 250	**(1)**		
		122 250			
	Inventory of raw materials 31 March 2017	(23 450)			
	Cost of raw materials consumed			98 800	**(1) W + F**
	Factory direct wages (78 800 + 3 500)			82 300	**(1)**
	Royalties			10 000	**(1)**
	Prime cost			191 100	**(1)OF + W**
	Factory overheads:				
	Factory indirect wages	20 800			
	Factory management salaries	49 000			
	Rent	14 700	**(1)**		
	Electricity	1 400	**(1)**		
	Maintenance	12 000	**(1)**		
	Depreciation on factory equipment	17 100			
				115 000	
				306 100	**(1) OF**
	Work in progress				
	At 1 April 2016	67 000			
	At 31 March 2017	(58 100)			
				8 900	**(1)**
	Cost of production **(1)**			315 000	**(1) OF**

Question	Answer	Marks
3(b)	Pension contributions Subscriptions Charitable donation **(1)** × 1 point	**1**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
<table>
<tr><td></td><td>$</td><td></td></tr>
<tr><td>160 hours × $8 =</td><td>1 280</td><td></td></tr>
<tr><td>25 hours × $12 =</td><td>300</td><td></td></tr>
<tr><td>10 hours × $16 =</td><td>160</td><td></td></tr>
<tr><td></td><td>1 740</td><td>(1)</td></tr>
<tr><td>Less</td><td></td><td></td></tr>
<tr><td>Income tax</td><td>(350)</td><td></td></tr>
<tr><td>Voluntary deductions</td><td>(60)</td><td></td></tr>
<tr><td></td><td>(410)</td><td>(1)</td></tr>
<tr><td>Net pay</td><td>1 330</td><td>(1) OF</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>3(d)</td><td>670 items less 17 rejects = 653 (1) items passed inspection × $3 per item = $1959 (1)</td><td>2</td></tr>
<tr><td>3(e)</td><td>Quality may be compromised
Additional cost of inspection
Possible safety issues
(1) × 2 points</td><td>2</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(i)</td><td>$60\,000 \times \frac{120}{20}$ (1) = 360 000 (1)</td><td>2</td></tr>
<tr><td>4(a)(ii)</td><td>60 000 – (25 000 + 8 000)(1) = 27 000 (1)</td><td>2</td></tr>
<tr><td>4(a)(iii)</td><td>60 000 + 15 000 = 75 000 (1) – (32 000 + 25 000) = 18 000 (1)</td><td>2</td></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th></th><th>Workings</th><th>Answer</th></tr>
<tr><td>Percentage of profit for the year to revenue</td><td>$\left.\frac{27\,000}{360\,000}\right\}$ (1) OF × 100 =</td><td>7.50% (1) OF</td></tr>
<tr><td>Working capital ratio (current ratio)</td><td>$\left.\frac{60\,000+15\,000}{25\,000+32\,000}\right\}$ = (1)</td><td>1.32:1 (1)</td></tr>
<tr><td>Quick ratio (acid test ratio)</td><td>$\left.\frac{15\,000}{25\,000+32\,000}\right\}$ (1)</td><td>0.26:1 (1)</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>4(c)</td><td>The quick ratio compares the assets which are in the form of money, or which will convert into money quickly, with the liabilities which are due for repayment in the near future. (1) It excludes inventory as this is not regarded as a liquid asset as this is two stages away from being money. (1)</td><td>2</td></tr>
<tr><td>4(d)</td><td>At 0.26:1 Juan's liquidity is low (1) OF and not really sufficient against a benchmark of 1:1. (1)

He has an existing overdraft therefore no funds available to pay this. (1)</td><td>3</td></tr>
<tr><td>4(e)</td><td>Introduce more personal capital in cash
Obtain a bank loan
Reduce drawings
Reduce expenses
Sell non-current assets for cash

Accept other valid points
(1) × 3 points</td><td>3</td></tr>
</table>

Question	Answer				Marks
5(a)	**Khayla** Income Statement for the year ended 30 April 2017				22
		$	$		
	Revenue		447 000		
	Returns inwards		(8 650)		
			438 350	**(1)**	
	Inventory 1 May 2016	29 350		**(1)**	
	Purchases (204 400**(1)** + 7 500 **(1)**)	211 900			
		241 250			
	Inventory 30 April 2017	(32 450)		**(1)**	
	Cost of sales		(208 800)	**(1) + W**	
	Gross profit		229 550	**(1) OF**	
	Plus other receivables:				
	Rent receivable (8 500 + 4 500)		13 000	**(1)**	
			242 550		
	Expenses:				
	Wages and salaries	105 600		**(1)**	
	Motor vehicle expenses	19 200		**(1)**	
	General expenses (31 100 + 3 500**(1)** – 1 800**(1)**)	32 800			
	Rent payable (24 000**(1)** – 4 000**(1)**)	20 000			
	Bank loan interest (2 500**(1)** + 1 500**(1)**)	4 000			
	Heat and light	10 700		**(1)**	
	Depreciation: Motor vehicles	5 600		**(1)**	
	Computers	9 500		**(1)**	
	Fixtures and fittings	1 500		**(1)**	
	Bad debts	2 700		**(1)**	
	Increase in provision for doubtful debts	700		**(1)**	
			(212 300)		
	Profit for the year		30 250		

Question	Answer					Marks
5(b)	Statement of Financial Position at 30 April 2017					18
	Non-current assets	Cost	Accumulated depreciation	Book value		
		$	$	$		
	Motor vehicles	40 000	17 600	22 400	**(1)**	
	Computers	55 000	26 500	28 500	**(1)**	
	Fixtures and fittings	15 000	5 500	9 500	**(1)**	
		110 000	49 600	60 400	**(1) OF**	
	Current assets					
	Inventory		32 450		**(1)**	
	Trade receivables (44 700 – 2 700)	42 000			**(1)**	
	Less Provision for doubtful debts	(2 100)	39 900		**(1) OF**	
	Other receivables (1 800 **(1)**+4 500**(1)** +4 000 **(1)**)		10 300			
	Cash and bank (15 400 **(1)** – 7 500 **(1)**)		7 900			
				90 550		
				150 950		
	Financed by:					
	Capital		30 000			
	Profit for the year		30 250		**(1) OF**	
			60 250			
	Less Drawings		(31 050)		**(1)**	
				29 200		
	Non-current liabilities					
	5% Bank loan (Repayable 30 June 2022)			80 000	**(1)**	
	Current liabilities					
	Trade payables		36 750		**(1)**	
	Other payables (3 500 **(1)** + 1 500**(1)**)		5 000			
				41 750		
				150 950		