CAMBRIDGE INTERNATIONAL EXAMINATIONS
Cambridge Ordinary Level

MARK SCHEME for the October/November 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/22 Paper 2 (Structured), maximum raw mark 120

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CAMBRIDGE
International Examinations

1 **(a)** **(i)**

Assets:	$	Liabilities:	$	
Inventory	1 950	Trade payable	400	
Bank	550	5% Bank loan	2 500	
Fixtures and fittings	1 500	Owner's capital	1 100	**(1)**
	4 000		4 000	

[1]

(ii)

	$	
Owner's capital	1 100	
5% Bank loan	2 500	
Capital employed	3 600	**(1of)**

[1]

(b)

Midland Telecomes account

		$					$	
31 May	Bank	400	**(1)**	1 May	Balance b/d		400	**(1)**
15 July	Bank	1 176	**(1)**	26 June	Telephone expenses a/c		1 200	**(1)**
	Discount received	24	**(1)**					
		1 600					1 600	

[5]

Telephone expenses account

		$					$	
26 June	Midland Telecoms	1 200	**(1)**	31 July	Income statement	**(1)**	1 330	**(1)**
31 July	Balance c/d	130						
		1 330					1 330	
				1 August	Balance b/d		130	**(1)**

[4]

(c) Accruals (matching) **(1)**

To match the telephone expense incurred **(1)** in the quarter to the income achieved **(1)** in the quarter. [3]

(d)

	Source document	Book of prime entry
5 July	*Purchase invoice*	*Purchases journal*
10 July	Credit note **(1)**	Sales returns journal **(1)**
20 July	Pay slip/wages sheet **(1)**	Cash Book **(1)**
25 July	Sales invoice **(1)**	General journal **(1)**

[6]

[Total: 20]

2 (a) The estimate in the loss in value **(1)** of a non-current asset over its expected working life. **(1)** [2]

(b)

For the year ended	Straight line method $	Reducing balance method $
30 September 2015	2 800 **(1)**	4 800 **(1)**
30 September 2016	2 800 **(1)**	2 400 **(1)**
30 September 2017	2 800 **(1)**	1 200 **(1)**

[6]

(c) There is an equal charge for depreciation in each year for equal benefit received. **(1)** [1]

(d) Motor vehicles depreciate more in the early years **(1)**
OR the net book value will be nearer to the market value **(1)** [1]

(e) Matching/accruals **(1)**
The non-current asset will give benefit to the business for many years and therefore an appropriate amount of depreciation should be matched **(1)** each year over the life of the asset. **(1)**

Consistency **(1)**
A chosen method should be consistently applied. **(1)** Changing the method could distort profit calculations. **(1)** [6]

(f)
1 Capital **(1)**
2 Revenue **(1)**
3 Capital **(1)**
4 Revenue **(1)** [4]

[Total: 20]

3 (a) Detailed recording of all transactions
Matters are not forgotten or overlooked
Can be used to check accuracy
Can be used to prepare financial statements
(1) × 2 points [2]

(b)

Purchases	$	
Payments to credit suppliers	17 800	**(1)**
Trade payables at the end	1 430	**(1)**
	19 230	
Trade payables at start	1 150	**(1)**
	18 080	
Card purchases	950	**(1)**
	19 030	**(1)**

[5]

(c)

Revenue	$	
Takings banked	43 200	**(1)**
Cash sales:		
Staff wages	14 900	
Drawings	8 000	**(1)all three**
Cash purchases	950	
	67 050	**(1)**

[3]

(d)

Basir's Korner Café
Income Statement for the year ended 30 September 2014

	$		$	
Revenue (sales)			67 050	**(1)**
Less				
Opening inventory	350			
Purchases	19 030			
	19 380			
Less Closing inventory	720			
Cost of sales			18 660	**(1)**
Gross profit			48 390	**(1of)**
Less expenses				
Rent (5500 + 500 **(1)** + 1000 **(1)**)	7 000			
Operating expenses	13 600	**(1)**		
Depreciation –				
Fixtures and fittings (2250 + 450 **(1)** – 2200)	500	**(1of)**		
Wages	14 900	**(1)**		
Interest on loan (5000 × 7%)	350	**(1)**		
			36 350	
Profit for the year			12 040	

[10]

[Total: 20]

4 (a)

	Workings	Answer
cost of sales	(15 500 + 24 500 **(1)**)/2 × 8 **(1)**	$160 000 **(1)**
purchases	160 000 **(1of)** + 24 500 – 15 500 **(1)**	$169 000 **(1of)**
percentage gross profit to sales	$\frac{40\,000\ \mathbf{(1of)} \times 100}{200\,000\ \mathbf{(1)}}$	20% **(1of)**
expenses	13% **(1)** × 200 000 **(1)**	$26 000 **(1)**
net profit	200 000 × 7% **(1)**	$14 000 **(1)**

[14]

(b)

Adjustment	Effect on inventory value		Value $
	increase	decrease	
1	✓		*50*
2		✓ **(1)**	100 **(1)**
3		✓ **(1)**	400 **(1)**
4		✓ **(1)**	180 **(1)**

[6]

[Total: 20]

5 (a)

Darius and Edgar
Income Statement and Appropriation for the year ended 31 July 2014

	$		$	
Revenue			256 000	
Less Returns			5 200	
			250 800	**(1)**
Opening inventory	25 800			
Plus Purchases	148 300			
	174 100			
Closing inventory	34 100			
Cost of sales			(140 000)	**(1)**
Gross profit			110 800	**(1of)**
Rent receivable (3 500 + 1 500)	5 000	**(1)**		
Decrease in provision for doubtful debts	500	**(1)**		
			5 500	
			116 300	
Less expenses:				
Rent	12 000	**(1)**		
Wages and salaries	28 950	**(1)**		
Heat and light	7 600	**(1)**		
Sundry expenses (6 350 – 1 800)	4 550	**(1)**		
Motor vehicle expenses	11 000	**(1)**		
Bank loan interest (1 600 + 1 600)	3 200	**(1)**		
Depreciation				
Leasehold buildings	3 000	**(2)**		
Motor vehicles	9 000	**(2)**		
Fixtures	2 500	**(2)**		
Bad debts	4 500	**(1)**		
			(86 300)	
Profit for the year			30 000	
Interest on capital:				
Darius	2 000	**(1)**		
Edgar	1 500	**(1)**		
			(3 500)	
			26 500	
Salary – Edgar			(12 000)	**(1)**
			14 500	
Share of profit:				
Darius	8 700	**(1of)**		
Edger	5 800	**(1of)**		
			14 500	

[23]

(b)

Current Accounts

Details		Darius	Edgar	Details		Darius	Edgar
		$	$			$	$
Drawings	**(1)**	12 000	12 000	Balance b/d	**(1)**	500	900
Balance c/d			8 200	Interest on capital	**(1of)**	2 000	1 500
				Share of profit	**(1of)**	8 700	5 800
				Salary			12 000
				Balance c/d		800	
		12 000	20 000			12 000	20 000
Balance b/d		800		Balance b/d			8 200

[4]

(c)

Darius and Edgar
Statement of Financial Position at 31 July 2014

		Cost		Accumulated depreciation	Book value
Non-current assets					
		$		$	$
Leasehold buildings		75 000		21 000	54 000**(1of)**
Motor vehicles		40 000		19 000	21 000**(1of)**
Fixtures		25 000		17 500	7 500**(1of)**
		140 000		57 500	82 500
Current assets					
Inventory		34 100	**(1)**		
Trade receivables	35 000		**(1)**		
Less provision for doubtful debts	(1 400)		**(1of)**		
		33 600			
Other receivables (1500 (1) + 1800 (1))		3 300			
Bank		31 400			
		102 400			
less					
Current liabilities					
Trade payables		55 900			
8% Bank loan		40 000	**(1)**		
Other payables		1 600	**(1)**		
		(97 500)			
Net current assets					4 900**(1of)**
					87 400
				$	$
Capital accounts:					
Darius				40 000	
Edgar				40 000	80 000**(1)**
Current accounts:					
Darius				800Dr	
Edgar				8 200Cr	7 400**(1of)**
					87 400

[13]

[Total: 40]