CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2013 series

7110 PRINCIPLES OF ACCOUNTS

7110/21 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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CAMBRIDGE
International Examinations

1 **(a)**

Date	Business document	Book of prime entry
4 June	Invoice **(1)**	Sales journal **(1)**
8 June	Credit note **(1)**	Sales returns journal **(1)**

[4]

(b) Statement of account **(2)** [2]

(c)

Mary

2013		$	2013		$
June 1	Balance b/d	680 **(1)**	June 5	Bank	646 **(1)**
June 4	Sales	688 **(1)**	June 5	Discount allowed	34 **(1)**
June 28	Sales	258 **(1)**	June 8	Sales returns	86 **(1)**
			June 29	Bank	602 **(1)**
			June 30	Balance c/d	258 **(1)**
		1626			1626
July 1	Balance b/d	258 **(1) of**			

Mark for figure and detail.
Plus **one** mark awarded for dates. [10]

(d)

Account	Sales ledger	Purchase ledger	General ledger
Sales			**GIVEN**
Drawings			✓ **(1)**
Kline Ltd (Supplier)		✓ **(1)**	
Millar and Son (Customer)	✓ **(1)**		
Insurance			✓ **(1)**

[4]

(e) Allow any three from:

Accuracy **(2)** speed of processing information **(2)** ability to process high volumes of information **(2)** performs reconciliation statements **(2)** less capacity of information storage required **(2)** security **(2)** balances available at all times **(2)**
Max 6 [6]

[Total: 26]

2 (a) Provision for Doubtful Debts account

2013		$	2012		$
June 31	Income statement **(1)**	24 **(2)**	May 31	Balance b/d	940 **(1)**
	Balance c/d	916 **(1)**			
		940			940
			2013		
			June 1	Balance b/d	916 **(1) of**

[6]

(b)

	Increase	Decrease	No effect
Gross profit			✓ **(1)**
Profit for the year	✓ **(1)**		
Trade receivables	✓ **(1)**		

[3]

(c) Raja should continue to maintain a provision for doubtful debts. **(2)**

Concept: The matching/accruals concept **(2)**
Reason:
Requires expenses of a period to be set against the revenues for that period. **(3)**
In the case of bad debts the amount written off in a period may relate to sales from another period. **(3)**
There is a time lag between sales and finding out that a debt is bad. If this overlaps two accounting periods then this breaks the matching concept. **(3)**

Concept: The prudence concept **OR** conservatism **(2)**
Reason:
Expenses may only be estimated so a provision is made as a matter of prudence. **(3)**
This is consistent with the principle of conservatism. **(2)**
The conservatism concept requires that monies from customers unlikely to be paid should not be shown as trade receivables in the statement of financial position/balance sheet. **(3)**

Allow any reasonable answer centred on matching and prudence/conservatism principles.
Max 9 [9]

(d) Net pay:

	$	
140 hours × $8 per hour	1120	**(1)**
10 hours × $12 per hour	120	**(1)**
Gross pay	1240	**(1) of**
Less 20% tax and social security	(248)	**(1)**
Net pay	992	**(1) of**

[5]

(e)

	$	
Employer's tax and social security payments	124	
Employee's tax and social security deductions	248	**(2)**
Total owed	372	**(1) of**

[3]

[Total: 26]

3 **(a)** Any two errors – one mark each from:

Error of commission **(1)** omission **(1)** principle **(1)** compensating **(1)**
Original entry **(1)** reversal **(1)** [2]

(b)

	Overstated	Understated	No effect	Amount $
1	✓			279
2	✓ **(1)**			246 **(1)**
3			✓ **(1)**	No effect **(1)**

[4]

(c) General Journal

		Dr	Cr
		$	$
1	Sales	279 **(1)**	
	Suspense		279 **(1)**
2	Discount received	123 **(1)**	
	Discount allowed	123 **(1)**	
	Suspense		246 **(1)**
3	Suspense	45 **(1)**	
	B Kaur		45 **(1)**

[7]

[Total: 13]

4 (a) 2013

Current assets		Current liabilities	
	$		$
Inventory	20 000	Trade payables	12 140
Trade receivables	16 600	Other payables	6 860
Other receivables	1 400		
Bank	1 750		
Cash	250		
	40 000		19 000

Working capital (current) ratio

$\frac{\text{Current assets}}{\text{Current liabilities}}$ $\frac{\$40\ 000}{\$19\ 000}$ = 2.10:1 **(1)**

Quick ratio (acid test)

$\frac{\text{Current assets}}{\text{Current liabilities}}$ – inventory ($40 000 – $20 000) $\frac{\$20\ 000}{\$19\ 000}$ **(1)** = 1.05:1 **(1) of**

Allow alternative:

Current assets – inventory – other receivables (40 000 – $20 000 – 1400) =
$\frac{\$18\ 600}{\$19\ 000}$ **(1)** = 0.98:1 **(1) of**

[3]

(b) (i) Comparison comments:

The working capital (current) ratio has fallen from 4:1 in 2012 to 2.10:1 in 2013 **(1)**
The quick (acid test) ratio has fallen from 2:1 in 2012 to 1.05:1 in 2013 **(1)**
Ratios show business is less liquid in 2013 than in 2012 **(1)**
Both ratios are within acceptable parameters **(1)**
The working capital (current) ratio is within acceptable parameters i.e. 2:1.
The quick (acid test) ratio is below acceptable parameters i.e. 1:1.
Allow any reasonable alternative answers.
Max 2 [2]

(ii) Possible causes:

The business may have suffered a loss in 2013 **(2)**
Non-current assets may have been bought during the financial year **(2)**
The owner may have taken case or goods for personal use **(2)**
Some of the long-term loan may have been paid off **(2)**
Rate of inventory turnover may have decreased **(2)**
Collection period for trade receivables may have increased **(2)**
Payment period for trade payables may have increased **(2)** [6]

(c) Possible measures:

Sell surplus non-current assets **(2)**
Introduce additional cash into the business **(2)**
Reduces personal cash and stock drawings **(2)**
Adopt policies to make a business profit **(2)**
Max 4 [4]

[Total: 15]

5 (a)

Genet and Vass

Income Statement and Appropriation Account for the year ended 31 January 2013 **(1)**

	$	$	$
Revenue			148 200
Less cost of sales			
Inventory 1 February 2012		12 400	
Purchases	66 200		
Returns	(1 230) **(1)**		
Import duty	2 846 **(1)**		
Transport ($4330 × 80%)	3 464 **(1)**	71 280	
		83 680	
Inventory 31 January 2013		(14 230) **(1)**	69 450
Gross profit			78 750 **(1) of**
Discount received			2 428 **(1)**
Reduction in provision for doubtful debts			200 **(1)**
			81 378
Marketing expenses		12 000	
Wages		9 600	
Transport costs ($4330 × 20%)		866 **(1)**	
General running expenses ($16 822 + $322)		17 144 **(1)**	
Insurance premiums ($10 400 – $800)		9 600 **(1)**	
Loan interest ($1000 + $200)		1 200 **(1)**	
Storage expenses ($9612 – $6000)		3 612 **(1)**	
Bad debts		110 **(1)**	
Depreciation:			
Lease	2 000 **(2)**		
Storage equipment ($26 000 + $6000)	3 840 **(2)**		
Motor vehicles	4 096 **(2)**	9 936	(64 268)
Profit for the year			17 110 **(1) of**
Less appreciation of profit:			
Interest on capital:			
Genet	2 400		
Vass	1 600 **(1)**	4 000	
Salary (Vass)		5 000 **(1)**	(9 000)
Profit available for distribution			8 110
Share of profit:			
Genet			4 866
Vass			3 244 **(1) of**
Total profit distributed			8 110

[24]

(b) Current accounts

	Genet	Vass			Genet	Vass	
	$	$			$	$	
Balance b/d		3 600		Balance b/d	2 400		**(1)**
Drawings	9 000	10 000	**(1)**	Interest on Capital	2 400	1 600	**(1)**
				Salary		5 000	**(1)**
				Share of Profit	4 866	3 244	**(1)**
Balance c/d	666			Balance c/d		3 756	
	9 666	13 600			9 666	13 600	
Balance b/d		3 756		Balance b/d	666		

[5]

(c) Genet and Vass

Balance Sheet (Statement of Financial Position) as at 31 January 2013 **(1)**

	Cost		Accumulated depreciation		NBV	
Non-current assets			$		$	$
Leasehold property	80 000		14 000		66 000	**(1) of**
Storage equipment	32 000		13 200		18 800	**(1) of**
Motor vehicles	40 000		23 616		16 384	**(1) of**
	152 000		50 816		101 184	
Current assets						
Inventory 31/01/2013			14 230			
Trade receivables	8 000					
Provision for doubtful debts	(400)	**(1) of**	7 600			
Other receivables:						
Insurance			800	**(1) of**		
			22 630			
Current liabilities						
Trade payables	10 180					
Other payables:						
Loan interest ($200)						
General expenses ($322)	522	**(1) of**				
Bank overdraft	1 202		(11 904)			
Net current assets (working capital)					10 726	
					111 910	**(1) of**
Non-current liabilities						
8% bank loan 1 May 2018					(15 000)	**(1)**
Net assets					96 910	
Financed by						
Capital:						
Genet			60 000			
Vass			40 000	**(1)**	100 000	
Current accounts:						
Genet			666			
Vass			(3 756)	**(1) of**	(3 090)	
					96 910	

[11]

[Total: 40]