UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2011 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.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 **(a)**

Savvas

		$				$	
Sept 10	Purchase returns	204	**(2)**	Sept 1	Balance b/d	1500	**(1)**
Sept 25	Bank	1440	**(1)**	Sept 8	Purchases	680	**(1)**
Sept 25	Discount received	60	**(1)**				
Sept 30	Balance c/d	476					
		2180				2180	
				Oct 1	Balance b/d	476	**(1)OF**

[7]

(b) Enables Akmal to make a profit
Encourages sales
Encourages buying in bulk
Encourages loyal / regular customers
1 point = **(2–0)** marks [2]

(c) Credit note **(1)** [1]

(d)

	Account	Sales Ledger	Purchase Ledger	Nominal/ General Ledger
(i)	Sales			✓
(ii)	Savvas (Supplier)		✓ **(1)**	
(iii)	Heat & light			✓ **(1)**
(v)	Capital			✓ **(1)**
(vi)	G.R.G Ltd (Customer)	✓ **(1)**		

[4]

(e)

		Assets	Liabilities	Capital
(ii)	Goods costing $800, sold on credit for $1 130.	+$330 **(1)**	No effect **(1)**	+$330 **(1)**
(iii)	Paid creditor $500 by cheque, less 3% cash discount.	–$485 **(1)**	–$500 **(1)**	+$15 **(1)**

[6]

[Total: 20]

2 **(a)**

Sales Ledger Control Account

	$			$	
Balance b/d	25 000	**(1)**	Receipts/Bank/Cash	75 000	**(1)**
Sales (credit sales)	80 000	**(1)**	Balance c/d	30 000	**(1)**
	105 000			105 000	

[4]

(b) **Two points × 2 marks**
Reduce the possibility of fraud / prevents fraud. **(2–0)**
Checking the arithmetical accuracy. **(2–0)**
To locate or prevent errors. **(2–0)**
Calculate the total value of trade receivables (debtors). **(2–0)**
To calculate trade receivables (debtors) used in trial balance / and / or final accounts. **(2–0)**
Measures staff efficiency. **(2–0)** [max 4]

(c)

	Dr	Cr	
	$	$	
Bank/cash	500		**(1)**
Bad debts	2 000		**(1)**
Keira		2 500	**(1)**

[3]

(d) Calculation of provision for doubtful debts

	$	Age of debt	%	Value ($)	
George	11 500	One month	2	230	**(1)**
Ranjula	9 500	Two months	2	190	**(1)**
Harry	5 000	Four months	10	500	**(1)**
Trupti	1 500	Eight months	20	300	**(1)**
	27 500			1 220	

[4]

(e)

Provision for doubtful debts account

2011		$		2010		$	
Sept 30	Income statement	80	**(1) OF**	Oct 1	Balance b/d	1 300	**(1)**
Sept 20	Balance c/d	1 220					
		1 300				1 300	
				2011			
				Oct 1	Balance b/d	1 220	**(1) OF**

[3]

(f) Prudence (1)
Accruals/matching (1)
(1) × 2 points [2]

[Total: 20]

3 **(a)**

Paulton Ltd
Profit and Loss Appropriation Account for the year ended 30 April 2011

	$	$
Profit for the year		40 000
Less		
Transfer to general reserve	20 000 **(1)**	
Dividends:		
Preference	4 000 **(1)**	
Ordinary		
Interim	1 000 **(1)**	
Proposed	2 500 **(1)**	
		27 500
Retained profit for the year (reasonable narrative)		12 500 **(1)**
Retained profit brought forward (ditto)		8 000 **(1)**
Retained profit carried forward **(1*)**		20 500 **(1)**

[8]

(b) Authorised share capital is the maximum number of shares which a company can issue.
The share capital is shares which can be sold to shareholders. [1]

The paid up share capital is shares which have been issued and paid for.
The shares that have been issued [1]

(c) A reserve is undistributed profits. **(2/0)**
Profits retained in the business. **(2/0)** [2]

(d) To retain cash / money / profit
To increase working capital.
To fund growth in the business and its assets.
To reinvest in the business.
To keep for emergencies.
To cover / pay future dividends.
(2) marks × 1 point [2]

(e) 1. Money measurement **(1)**
Can only record items which can be expressed in monetary terms**(2/0)**
Difficult to value/measure **(2/0)**
Will be lost if staff leave **(2/0)**
(2) marks × 1 point [3]

2. Consistency **(1)**
Should apply the same method from year to year **(2/0)**
Can distort the profit comparison from year to year **(2/0)**
May result in inaccurate net book values **(2/0)**
(2) marks × 1 point [3]

[Total: 20]

4 **(a)** Calculation any format acceptable, 56 000 = 3, 64 000 = 2.

(i)

	$	
Opening inventory	6 000	**(1)**
Purchases	58 000	**(1)**
	64 000	
Closing inventory	8 000	**(1)**
Cost of sales	56 000	

[3]

(ii)

$\frac{\text{Cost of sales}}{\text{Average inventory}}$ $\frac{56\ 000}{(6\ 000 + 8\ 000/2)}$ **(1of)** = 8 times **1(o/f)**

= 700 **(1)**

[3]

(b) **(i)**

$\frac{\text{Gross profit} \times 100}{\text{Sales}}$ $\frac{24\ 000\ \textbf{(1o/f)} \times 100}{80\ 000\ \textbf{(1)}}$ = 30% **(1o/f)**

[3]

(ii) Increase in purchasing costs / increase in cost of sales **(1)**
Selling at lower prices **(1)**
Poor stock control / damage / stolen / obsolete **(1)**
Allow acceptable alternatives
Accept own figure comments to match with **b(i)** above
(1) Per point × 2 [2]

(c) **(i)**

$\frac{\text{Current assets}}{\text{Current liabilities}}$ $\frac{24\ 000\ \textbf{(1)}}{16\ 000\ \textbf{(1)}}$ = 1.5 : 1 **(1)**

[3]

(d)

Action	Working capital (Increase, decrease, unchanged)	Amount of change ($)
2. Sale of inventory (cost $4 000) for $3 200 cash.	Decrease **(1)**	$800 **(1)**
3. Purchase non current assets $8 000 and stock $2 000, on credit.	Decrease **(1)**	$8 000 **(1)**
4. Pay accounts payable, $5 000, after taking cash discount of 4%.	Increase **(1)**	$200 **(1)**

[6]

[Total: 20]

5 (a)

Jasmine
Income Statement for year ended 30 September 2011 **(1)**

	$	$	
Revenue (sales)		210 000	
Returns		(8 120)	
		201 880	**(1)**
Inventory 1 October 2010	9 430		
Purchases	113 500		**(1)**
Carriage in	500		**(1)**
	123 430		
Returns	(3 400)		**(1)**
	120 030		
Inventory 30 Sept 2011	(11 780)		**(1)**
Cost of sales		108 250	**(1 o/f) no aliens**
Gross profit		93 630	
Add other income			
Discount received	1 750		**(1)**
Profit on disposal	200		**(1)**
Dec Provision Doubtful Debts	90		**(2–0)**
		2 040	
		95 670	
Less Overheads			
Carriage out	1 200		**(1)**
Insurance (5 600 – 1 120)	4 480		**(1)**
Light and heat (6 300 + 375)	6 675		**(1)**
Wages	27 000		
Advertising	10 600		
General expenses	15 850		**(1)**
Building repairs	4 100		**(2–0)**
Depreciation:			
Fixtures	3 600		**(2–0)**
Computers	2 520		**(2–0)**
Loan interest	700		**(2–0)**
		(76 725)	
Profit for the year		18 945	**(1of) no aliens, labelled**

[24]

(b)

Balance Sheet at 30 September 2011

	$ Cost	$ Accumulated Depreciation	$ NBV	
Non current assets				
Land and buildings	16 000		116 000	**(1)**
Fixtures and fittings	18 000	10 800	7 200	**(1of) (< 10 800)**
Computer equipment	12 000	6 120	5 880	(**1of) (< 8 400)**
	146 000	16 920	129 080	
Current assets				
Inventory		11 780		**(1)**
Trade receivables	8 200			
Less PDD (<500)	(410)			**(1o/f)**
		7 790		**(1o/f)** if net
Other receivables		1 120		**(1)**
		20 690		
Current liabilities				
Trade payables	26 750 **(1)**			
Other payables (375 + 700) **(1) (1o/f)**	1 075			
Bank overdraft	18 500 **(1)**			
		(46 325)		
Net current liabilities (accept working capital / net current assets)			(25 635)	**(1of)**
			103 445	
Non current liabilities				
7% Bank loan (must state loan)			(20 000)	**(1)**
			83 445	
Financed by:				
Capital at 1 October 2010			80 000	**(1)**
Add profit for the year			18 945	**(1of)**
			98 945	
Less drawings			(15 500)	**(1)**
			83 445	

[16]

[Total: 40]