

**MARK SCHEME for the October/November 2012 series**

**7110 PRINCIPLES OF ACCOUNTS**

**7110/22**

Paper 2 (Structured), maximum raw mark 120

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1 (a)

Jane  
Trial Balance at 1 October 2012

	Debit	Credit
	\$	\$
Motor van	1500	
Shop fixtures	250	
Cash	500	
Peter – Loan		600
Capital		1650 <b>(2)</b>
	<b>2250 (1)</b>	<b>2250 (1)</b>

[4]

(b)

Transaction	Book of original entry	Account to be debited	Account to be credited	Effect on capital
Purchased goods, \$600, on credit from Punto	<i>Purchases journal</i>	<i>Purchases</i>	<i>Punto</i>	<i>No effect</i>
Sold goods list price, \$750, on credit to Yuen	Sales journal <b>(1)</b>	Yuen <b>(1)</b>	Sales <b>(1)</b>	+\$450 <b>(1)</b>
Sold all the shop fixtures for cash \$200	Cash book <b>(1)</b>	Cash <b>(1)</b>	Fixtures (Disposals) <b>(1)</b>	–\$50 <b>(1)</b>
Paid wages by cash \$150	Cash book <b>(1)</b>	Wages <b>(1)</b>	Cash <b>(1)</b>	–\$150 <b>(1)</b>
Yuen returned goods with a list price of \$100	Sales returns journal <b>(1)</b>	Sales returns <b>(1)</b>	Yuen <b>(1)</b>	–\$60 <b>(1)</b>

[16]

**[Total: 20]**

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2 (a)

Peng  
Trial Balance at 31 August 2012

	Debit \$	Credit \$	
Capital		18 240	(1)
Bank overdraft		3 000	(1)
Fixtures and fittings	14 100		
Provision for depreciation – Fixtures and fittings		8 800	
Inventory	14 200		
Trade receivables	12 300		
Trade payables		9 900	(1)
Revenue		110 000	
Purchases	51 000		(1)
Discount received		1 800	(1)
Wages and salaries	26 000		(1)
Sundry expenses	34 000		
Discount allowed	620		
Suspense (1)		480	(2)
	<u>152 220</u>	<u>152 220</u>	[9]

- (b) 1. Commission (1)  
 2. Principle (1)  
 3. Reversal (1) [3]

(c)

	Journal Dr \$	Cr \$	
A.Winscom	200		(1)
W.Wilson		200	(1)
Fixtures	900		(1)
Purchases		900	(1)
Wages	3000		(1)
Bank		3000	(1)
Suspense	480		(1)
Discount received		480	(1)
			[8]

**[Total: 20]**

- 3 (a) Individual accounts of e.g. trade receivables, maintained  
 Balances available at all times  
 Each transaction recorded for ease of reference  
 Other valid reasons  
 (1) × 2 points [2]

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(b) Leong

Statement of Affairs at 30 September 2012

	\$	\$	
Non-current assets			
Motor vehicle		7 700	(1)
Current assets			
Inventory	11 600		
Trade receivables (6 500 – 500)	6 000		(2)
Other receivables (350 + 100)	450		(2)
Bank deposit	2 600		
Cash	<u>50</u>		
	20 700		(1)
Current liabilities			
Trade payables	8 100		
Other payables	<u>900</u>		
	9 000		(1)
Net current assets		<u>11 700</u>	
		19 400	
Non current liabilities			
Loan		<u>(9 000)</u>	(1)
		<u>10 400</u>	
Capital		<u>10 400</u>	(2 or 1 of) [10]

(c)	\$		
Opening capital	6 000	(1)	
Profit for the year	<u>13 200</u>	(1 of)	
	19 200		
Drawings	<u>(8 800)</u>	(1)	
Closing capital	<u>10 400</u>	(1 of)	Accept alternative formats [4]

(d) (i)	130 hours × \$6	= \$780	
	10 hours × \$9	= <u>\$90</u>	
		\$870	(1)
	Less tax	<u>\$145</u>	
	Net pay	<u>\$725</u>	(1) [2]

(ii)	Gross pay	\$870	
	Employers social security	<u>\$87</u>	(1 of)
	Total cost of employing Fan	<u>\$957</u>	(1 of) [2]

**[Total: 20]**

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- 4 (a) (i)
- |   | \$000                       |             |         |
|---|-----------------------------|-------------|---------|
| Gross profit (Cost of sales \$320 × 25%)  | 80                          | (1)         |         |
| Expenses                                  | <u>60</u>                   |             |         |
| Profit for the year                       | <u>20</u>                   | (2 or 1 of) | [3]     |
|   |                             |             |         |
| (ii) Turnover of inventory                | $\frac{320}{(25 + 65)/2}$   | = 7.1 times | (3) [3] |
|   |                             |             |         |
| (iii) Gross profit/sales percentage       | $\frac{80 \times 100}{400}$ | = 20%       | (3) [3] |
|   |                             |             |         |
| (iv) Net profit to sales percentage       | $\frac{20 \times 100}{400}$ | = 5%        | (3) [3] |
|   |                             |             |         |
| (v) Working capital ratio (current ratio) | $\frac{65 + 70}{75 + 15}$   | = 1.5:1     | (3) [3] |
|   |                             |             |         |
- (b) Reduced mark up/selling price on goods  
Increased advertising and market awareness  
Improved quality of the goods purchased  
Improved the range of goods for sale  
Other valid points accepted
- (1) × 2 points [2]
- (c) The ratio is below the recommended 2:1, but is within an acceptable range.  
Other valid points accepted.
- (2) × 1 point [2]
- (d) Sell surplus non-current assets  
Obtain long term loan  
Introduce additional capital  
Other valid points accepted
- (1) × 1 point [1]

**[Total: 20]**

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5 (a)

Khan

Manufacturing Account for the year ended 31 July 2012

	\$	\$	
Inventory of raw materials at 1 August 2011	26 000		(1)
Purchases of raw materials	<u>183 000</u>		(1)
		209 000	
Less: Inventory of raw materials at 31 July 2012	<u>29 000</u>		(1)
Cost of raw materials consumed	180 000		(1)
Production wages (164 500 + 6 500)	171 000		(1)
Direct factory expenses	<u>38 000</u>		(1)
Prime cost (1)		389 000	(1 of)
Factory overheads:			
Indirect factory expenses	19 700		(1)
Rent and rates	16 500		(1)
Production management salaries	63 000		(1)
Provision for depreciation of plant and machinery	<u>20 800</u>		(1)
		<u>120 000</u>	
		509 000	
Less Increase in work in progress (36 000 – 40 000)		<u>(4 000)</u>	(1)
Production Cost		<u>505 000</u>	(1) [14]

(b)

Income Statement for the year ended 31 July 2012

	\$	\$	
Revenue		680 000	(1)
Inventory of finished goods at 1 August 2011	48 000		
Production cost	505 000		(1 of)
Drawings by owner	<u>(1 500)</u>		(1)
	551 500		
Inventory of finished goods at 31 July 2012	<u>(55 000)</u>		
Cost of sales		<u>(496 500)</u>	(1 of)
Gross profit		183 500	
Less			
Rent and rates	5 500		(1)
Office wages and salaries (69 500 – 8 000)	61 500		(1)
Marketing expenses (27 850 – 1 350)	26 500		(1)
Distribution costs	62 000		(1)
General office expenses	6 700		(1)
Loan interest (2 100 + 700)	2 800		(1)
Provision for depreciation on office equipment	4 000		(1)
Loss on disposal	500		(1)
Increase in provision for doubtful debts	<u>1 500</u>		(1)
		<u>(171 000)</u>	
Profit for the year		<u>12 500</u>	[13]

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(c) Balance Sheet at 31 July 2012

	Cost	Accumulated depreciation	NBV
	\$	\$	\$
<u>Non-current assets</u>			
Factory equipment	160 000	76 800	83 200 (1)
Office equipment	<u>40 000</u>	<u>30 000</u>	<u>10 000</u> (1)
	<u>200 000</u>	<u>106 800</u>	93 200
<u>Current assets</u>			
Inventory:			
Raw materials	29 000		
Work in progress	40 000		
Finished goods	<u>55 000</u>		
		124 000	(1)
Trade receivables	75 000		
Less: provision for doubtful debts	<u>4 500</u>		
		70 500	(2)
Other receivables (Prepaid marketing)		1 350	(1)
Bank		<u>9 700</u>	
		<u>205 550</u>	
Less: <u>current liabilities</u>			
Trade payables	53 550		(1)
Other payables			
accrued expenses (6 500 + 700)	<u>7 200</u>		(2)
		(60 750)	
Net current assets			<u>144 800</u>
			238 000
<u>Non current liabilities</u>			
8% loan repayable 31 December 2025			<u>(35 000)</u> (1)
			<u>203 000</u>
Capital		200 000	
Add: Profit for the year		<u>12 500</u>	
		212 500	
Less: Drawings (8 000 + 1 500)		<u>(9 500)</u>	(2)
			<u>203 000</u> (1 of)

[13]