

**MARK SCHEME for the May/June 2014 series**

**7110 PRINCIPLES OF ACCOUNTS**

**7110/21**

Paper 2 (Structured), maximum raw mark 120

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|               |                                    |                 |              |
|---------------|------------------------------------|-----------------|--------------|
| <b>Page 2</b> | <b>Mark Scheme</b>                 | <b>Syllabus</b> | <b>Paper</b> |
|               | <b>GCE O LEVEL – May/June 2014</b> | <b>7110</b>     | <b>21</b>    |

- 1 (a)** Cash Book (bank columns)
- |          |                | \$          |          | \$              |                |
|----------|----------------|-------------|----------|-----------------|----------------|
| 8 April  | Sales          | 1204        | 1 April  | Balance b/d     | 614            |
| 18 April | Trinity Stores | 780         | 2 April  | Stanning        | 88             |
| 23 April | Xain           | 73          | 8 April  | Chong           | 640            |
| 24 April | Li Ye          | 37          | 23 April | Zaine           | 59             |
|          |                |             | 27 April | Pang            | 94             |
| 30 April | Dividend       | 41 (1)      | 30 April | Charges         | 16 (1)         |
|          |                |             | 30 April | MDA Electricity | 104 (1)        |
|          |                |             | 30 April | Balance c/d     | <u>520 (1)</u> |
|          |                | <u>2135</u> |          |                 | <u>2135</u>    |
| 1 May    | Balance b/d    | 520 (1of)   |          |                 |                |
- [5]
- (b)** Bank Reconciliation Statement at 30 April 2014
- |                                  | \$            | \$               |
|----------------------------------|---------------|------------------|
| Balance as per bank statement    |               | 469              |
| Plus                             |               |                  |
| Amount not yet credited – Xain   | 73 (1)        |                  |
| Li Ye                            | <u>37 (1)</u> |                  |
|                                  |               | 110              |
|                                  |               | <u>579</u>       |
| Less                             |               |                  |
| Cheque not yet presented – Zaine |               | <u>59 (1)</u>    |
| Balance as per cash book         |               | <u>520 (1of)</u> |
- [4]
- (c)** Standing order (1) [1]
- (d)** Trinity Stores account
- |         | \$          |             | \$       |                  |             |
|---------|-------------|-------------|----------|------------------|-------------|
| 1 April | Balance b/d | 800 (1)     | 10 April | Sales returns    | 80 (1)      |
| 8 April | Sales       | 720 (1)     | 18 April | Bank             | 780 (1)     |
|         |             |             |          | Discount allowed | 20 (1)      |
|         |             |             | 30 April | Balance c/d      | <u>640</u>  |
|         |             | <u>1520</u> |          |                  | <u>1520</u> |
| 1 May   | Balance b/d | 640 (1)     |          |                  |             |
- [6]
- (e)** Credit note (1) [1]
- (f)** Bulk purchases  
 Enable Trinity Stores to sell and make a profit  
 To attract repeat business  
 They are in the same trade  
 (1) × 2 points [2]

[Total: 19]

|               |                                    |                 |              |
|---------------|------------------------------------|-----------------|--------------|
| <b>Page 3</b> | <b>Mark Scheme</b>                 | <b>Syllabus</b> | <b>Paper</b> |
|               | <b>GCE O LEVEL – May/June 2014</b> | <b>7110</b>     | <b>21</b>    |

**2 (a)**

|               |             | Insurance account |  |               |                               |
|---------------|-------------|-------------------|--|---------------|-------------------------------|
|               |             | \$                |  | \$            |                               |
| 1 April 2013  | Balance b/d | 500               |  | 31 March 2014 | Income statement (1) 4350 (1) |
| 31 March 2014 | Bank        | <u>4000</u> (1)   |  |               | Balance c/d <u>150</u>        |
|               |             | <u>4500</u>       |  |               | <u>4500</u>                   |
| 1 April 2014  | Balance b/d | 150 (1)           |  |               |                               |

  

|               |                      | Commission receivable account |  |                  |                        |
|---------------|----------------------|-------------------------------|--|------------------|------------------------|
|               |                      | \$                            |  | \$               |                        |
| 31 March 2014 | Income statement (1) | 1650 (1)                      |  | 1 April 2013     | Balance b/d 250        |
|               |                      | <u>1650</u>                   |  | To 31 March 2014 | Bank 1200 (1)          |
|               |                      | <u>1650</u>                   |  | 31 March 2014    | Balance c/d <u>200</u> |
| 1 April 2014  | Balance b/d          | 200 (1)                       |  |                  | <u>1650</u>            |

[8]

**(b)**

|               |      | Journal |      |          |
|---------------|------|---------|------|----------|
|               |      | Dr      | Cr   |          |
|               |      | \$      | \$   |          |
| Purchases     | 450  |         |      | (1) Both |
| Cash          |      |         | 450  |          |
| Purchases     | 360  |         |      | (1)      |
| C Maxley      |      |         | 360  | (1)      |
| Motor vehicle | 6000 |         |      | (1) Both |
| Purchases     |      |         | 6000 |          |
| Purchases     | 1640 |         |      | (1)      |
| Y Li          |      |         | 1640 | (1)      |

[6]

**(c)**

|   |   | Type of error      | Effect on gross profit |
|---|---|--------------------|------------------------|
| 1 | Goods purchased for cash, \$450, had not been recorded in the books.  | <i>Omission</i>    | <i>Decrease \$450</i>  |
| 2 | Goods purchased on credit from C Maxley, \$950, had been recorded in the books as \$590.                    | Original entry (1) | Decrease \$360 (1)     |
| 3 | A purchase of a motor vehicle, \$6000, had been recorded in the purchases account.                          | Principle (1)      | Increase \$6000 (1)    |
| 4 | Goods purchased on credit from Y Li, \$820, had been credited to the purchases account and debited to Y Li. | Reversal (1)       | Decrease \$1640 (1)    |

[6]

**[Total: 20]**

| Page 4 | Mark Scheme                 | Syllabus | Paper |
|--------|-----------------------------|----------|-------|
|        | GCE O LEVEL – May/June 2014 | 7110     | 21    |

|       |                         |                |     |
|-------|-------------------------|----------------|-----|
| 3 (a) | 160 hours @ \$6 =       | 960            |     |
|       | 20 hours @ \$9 =        | <u>180</u>     |     |
|       |                         | 1140 (1)       |     |
|       | Tax and social security | <u>240 (1)</u> |     |
|       | Net pay                 | 900 (1)        | [3] |

|     |  |                  |               |
|-----|--|------------------|---------------|
| (b) | Millenium Social Club                                  |                  |               |
|     | Café Income Statement for the year ended 30 April 2014 |                  |               |
|     |  | \$               | \$            |
|     | Revenue  |                  | 41 000        |
|     | Less   |                  |               |
|     | Opening inventory                                      | 930              |               |
|     | Purchases (12 400 + 1 100 (1) – 1 250 (1))             | <u>12 250</u>    |               |
|     |  | 13 180           |               |
|     | Closing inventory                                      | <u>(790) (1)</u> |               |
|     | Cost of sales  | 12 390           |               |
|     | Less expenses:   |                  |               |
|     | Wages and taxes (14 000 + 1 140 (1) + 114 (1))         | 15 254           |               |
|     | Heat and light   | 600 (1)          |               |
|     | Depreciation on equipment and fixtures                 | <u>900 (1)</u>   |               |
|     |  |                  | (29 144)      |
|     | Profit on café   |                  | <u>11 856</u> |
|     |  |                  | <u>41 000</u> |

|     |   |           |                  |
|-----|---|-----------|------------------|
| (c) | Millenium Social Club   |           |                  |
|     | Income and Expenditure Account for the year ended 30 April 2014 |           |                  |
|     |   | \$        | \$               |
|     | Income:   |           |                  |
|     | Subscriptions (5 800 + 750 (1) – 400 (1) + 600 (1))             |           | 6 750            |
|     | Profit on café  |           | 11 856 (1of)     |
|     | Donations   |           | <u>3 100 (1)</u> |
|     |   |           | 21 706           |
|     | Less Expenditure:   |           |                  |
|     | Heat and light  | 600 (1)   |                  |
|     | Depreciation on equipment and fixtures                          | 900 (1)   |                  |
|     | Bank loan interest  | 800 (1)   |                  |
|     | General expenses  | 7 600 (1) |                  |
|     | Rent  | 4 000 (1) |                  |
|     |   |           | (13 900)         |
|     | Excess of income over expenditure                               |           | <u>7 806</u>     |
|     |   |           | <u>21 706</u>    |

[10]

**[Total: 20]**

4 (a) (i)  $\$300\,000 \times 20\% = \$60\,000$   
 Cost of goods sold  $\$300\,000 - \$60\,000 = \$240\,000$  (2) [2]

|                   |                |       |     |
|-------------------|----------------|-------|-----|
| (ii)              | \$             |       |     |
| Opening inventory | 120 000        | (2)   |     |
| Purchases         | <u>170 000</u> |       |     |
|                   | 290 000        |       |     |
| Closing inventory | <u>50 000</u>  |       |     |
| Cost of sales     | 240 000        | (1of) | [3] |

(b) Inventory becomes obsolete  
 Holding costs of storage etc.  
 Space occupied by storage  
 Deterioration/damage of inventory  
 Risk of theft  
 Liquidity problems  
 (1) × 2 points [2]

(c) (i)  $\frac{\$50\,000 + 11\,000 + 5\,000}{60\,000} = \frac{66\,000}{60\,000} = 1.1:1$  (1) [3]

(ii)  $\frac{\$11\,000 + 5\,000}{60\,000} = \frac{16\,000}{60\,000} = 0.27:1$  (1) [3]

(d) The current ratio is low (1) compared to the yardstick of 2:1 (1)  
**OR**  
 The current ratio is low (1) due mainly to a high level of trade payables (1) [2]

(e)

|  | Current assets            | Current liabilities    | Working capital ratio (current ratio) |
|--|---------------------------|------------------------|---------------------------------------|
| 1 Repaid a \$40 000 long term bank loan.                 | <i>Decreased \$40 000</i> | <i>No effect</i>       | <i>Decreased</i>                      |
| 2 Purchased \$20 000 of non-current assets on credit.    | No effect (1)             | Increased \$20 000 (1) | Decreased (1)                         |
| 3 Sold inventory for \$20 000 on credit (cost \$15 000). | Increased \$5 000 (1)     | No effect (1)          | Increased (1)                         |

[6]

[Total: 21]

| Page 6 | Mark Scheme                 | Syllabus | Paper |
|--------|-----------------------------|----------|-------|
|        | GCE O LEVEL – May/June 2014 | 7110     | 21    |

| 5  | Chan and Fong   |                      |      |
|--|---|----------------------|------|
|  | Income Statement and Appropriation Account for the year ended 30 April 2014 |                      |      |
|  | \$  | \$                   |      |
| Revenue                                  |   | 480 500              |      |
| Less Returns                             |   | <u>(11 800)</u>      |      |
|  |   | 468 700 (1)          |      |
| Inventory at 1 May 2014                  | 47 700  |                      |      |
| Purchases                                | <u>209 000</u>  |                      |      |
|  | 256 700   |                      |      |
| Less Returns                             | <u>(10 500) (1)</u>   |                      |      |
|  | 246 200   |                      |      |
| Carriage inwards                         | <u>3 400 (1)</u>  |                      |      |
|  | 249 600   |                      |      |
| Less Inventory at 30 April 2014          | <u>(38 350)</u>   |                      |      |
| Cost of sales                            |   | <u>(211 250) (1)</u> |      |
| Gross profit                             |   | 257 450 (1of)        |      |
| Less Carriage outwards                   | 10 200 (1)  |                      |      |
| Office expenses (36 500 – 4 000)         | 32 500 (1)  |                      |      |
| Selling expenses                         | 30 800 (1)  |                      |      |
| Wages and salaries (80 000 – 5 000)      | 75 000 (1)  |                      |      |
| Heat and light (4 750 + 750)             | 5 500 (1)   |                      |      |
| Bank loan interest (9 000 + 7 000)       | 16 000 (1)  |                      |      |
| Bad debt                                 | 7 500 (1)   |                      |      |
| Increase in provision for doubtful debts | 750 (1)   |                      |      |
| Provisions for depreciation:             |   |                      |      |
| Motor vehicles                           | 5 000 (1)   |                      |      |
| Fixtures and fittings                    | <u>3 000 (1)</u>  |                      |      |
|  |   | <u>(186 250)</u>     |      |
| Profit for the year                      |   | 71 200               |      |
| Plus Interest on drawings:               |   |                      |      |
| Chan                                     | 300 (1)   |                      |      |
| Fong                                     | <u>500 (1)</u>  | <u>800</u>           |      |
|  |   | 72 000               |      |
| Less Interest on capital:                |   |                      |      |
| Chan                                     | 3 000 (1)   |                      |      |
| Fong                                     | <u>2 000 (1)</u>  | <u>(5 000)</u>       |      |
|  |   | 67 000               |      |
| Salary Fong                              |   | <u>(10 000) (1)</u>  |      |
|  |   | 57 000               |      |
| Share of profit:                         |   |                      |      |
| Chan                                     | 38 000 (1of)  |                      |      |
| Fong                                     | <u>19 000 (1of)</u>   | <u>57 000</u>        |      |
|  |   | <u>57 000</u>        | [22] |

**(b) Current accounts**

| Details         | Chan<br>\$    | Fong<br>\$        | Details             | Chan<br>\$    | Fong<br>\$          |
|-----------------|---------------|-------------------|---------------------|---------------|---------------------|
| Drawings        | 6 000         | 10 000 <b>(1)</b> | Balance b/d         | 1 500         | 4 000               |
| Drawings salary |               | 5 000 <b>(1)</b>  | Interest on capital | 3 000         | 2 000               |
| Int on drawings | 300           | 500 <b>(1)</b>    | Salary              |               | 10 000              |
| Balance c/d     | <u>36 200</u> | <u>19 500</u>     | Share of profit     | 38 000        | 19 000 <b>(1of)</b> |
|                 | <u>42 500</u> | <u>35 000</u>     |                     | <u>42 500</u> | <u>35 000</u>       |
|                 |               |                   | Balance b/d         | 36 200        | 19 500              |

[4]

|               |                                    |                 |              |
|---------------|------------------------------------|-----------------|--------------|
| <b>Page 8</b> | <b>Mark Scheme</b>                 | <b>Syllabus</b> | <b>Paper</b> |
|               | <b>GCE O LEVEL – May/June 2014</b> | <b>7110</b>     | <b>21</b>    |

(c)

Chan and Fong  
Statement of Financial Position at 30 April 2014

|                                       | \$<br>Cost         | \$<br>Accumulated<br>depreciation | \$<br>NBV            |
|---------------------------------------|--------------------|-----------------------------------|----------------------|
| <u>Non-current assets</u>             |                    |                                   |                      |
| Land and buildings                    | 250 000            | –                                 | 250 000              |
| Motor vehicles                        | 45 000             | 30 000                            | 15 000 (1)           |
| Fixtures and fittings                 | <u>30 000</u>      | <u>15 000</u>                     | <u>15 000</u> (1)    |
|                                       | <u>325 000</u>     | <u>45 000</u>                     | 280 000              |
| <u>Current assets</u>                 |                    |                                   |                      |
| Inventory                             |                    | 38 350 (1)                        |                      |
| Trade receivables                     | 47 500             |                                   |                      |
| Less: provision for doubtful debts    | <u>(2 850) (1)</u> |                                   |                      |
|                                       |                    | 44 650 (1of)                      |                      |
| Other receivables                     |                    | 4 000 (1)                         |                      |
| Bank (34 500 – 2 000 (1))             |                    | <u>32 500</u>                     |                      |
|                                       |                    | 119 500                           |                      |
| Less:                                 |                    |                                   |                      |
| <u>Current liabilities</u>            |                    |                                   |                      |
| Trade payables                        |                    | 36 050 (1)                        |                      |
| Other payables: (750 (1) + 7 000 (1)) |                    | <u>7 750</u>                      |                      |
|                                       |                    | (43 800)                          |                      |
| Net current assets                    |                    |                                   | <u>75 700</u> (1of)  |
|                                       |                    |                                   | 355 700              |
| Less                                  |                    |                                   |                      |
| <u>Non-current liabilities</u>        |                    |                                   |                      |
| 8% loan repayable 30 March 2016       |                    |                                   | <u>(200 000) (1)</u> |
|                                       |                    |                                   | <u>155 700</u>       |
| Capital accounts:                     |                    |                                   |                      |
| Chan                                  |                    | 60 000                            |                      |
| Fong                                  |                    | <u>40 000</u>                     |                      |
|                                       |                    |                                   | 100 000 (1)          |
| Current accounts:                     |                    |                                   |                      |
| Chan                                  |                    | 36 200 Cr                         |                      |
| Fong                                  |                    | <u>19 500 Cr</u>                  |                      |
|                                       |                    |                                   | <u>55 700</u> (1of)  |
|                                       |                    |                                   | <u>155 700</u>       |
|                                       |                    |                                   | [14]                 |
|                                       |                    |                                   | <b>[Total: 40]</b>   |