

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

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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2014 series for most Cambridge IGCSE[®], Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is the registered trademark of Cambridge International Examinations.

Page 2	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

1 (a) (i)

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

[1]

(ii)

	\$
Owner's capital	1 100
5% Bank loan	<u>2 500</u>
Capital employed	<u>3 600 (1of)</u>

[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	<u>24 (1)</u>			
		<u>1 600</u>			<u>1 600</u>

[5]

		Telephone expenses account			
		\$		\$	
26 June	Midland Telecoms	1 200 (1)	31 July	Income statement	(1) 1 330 (1)
31 July	Balance c/d	<u>130</u>			
		<u>1 330</u>			<u>1 330</u>
			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	<i>Purchase invoice</i>	<i>Purchases journal</i>
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]

Page 4	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

(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	<u>1 430</u>	(1)
	19 230	
Trade payables at start	<u>1 150</u>	(1)
	18 080	
Card purchases	<u>950</u>	(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	<u>950</u>	
	67 050	(1)

[3]

Page 5	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

(d)

Basir's Korner Café			
Income Statement for the year ended 30 September 2014			
	\$	\$	
Revenue (sales)		67 050	(1)
Less			
Opening inventory	350		
Purchases	<u>19 030</u>		
	19 380		
Less Closing inventory	<u>720</u>		
Cost of sales		<u>18 660</u>	(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%)	<u>350</u>		(1)
		<u>36 350</u>	
Profit for the year		<u><u>12 040</u></u>	

[10]

[Total: 20]

4 (a)

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

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

5 (a)

Darius and Edgar			
Income Statement and Appropriation for the year ended 31 July 2014			
	\$	\$	
Revenue		256 000	
Less Returns		<u>5 200</u>	
		250 800	(1)
Opening inventory	25 800		
Plus Purchases	<u>148 300</u>		
	174 100		
Closing inventory	<u>34 100</u>		
Cost of sales		<u>(140 000)</u>	(1)
Gross profit		110 800	(1of)
Rent receivable (3 500 + 1 500)	5 000		(1)
Decrease in provision for doubtful debts	<u>500</u>		(1)
		<u>5 500</u>	
		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	<u>4 500</u>		(1)
		<u>(86 300)</u>	
Profit for the year		30 000	
Interest on capital:			
Darius	2 000		(1)
Edgar	<u>1 500</u>		(1)
		<u>(3 500)</u>	
		26 500	
Salary – Edgar		<u>(12 000)</u>	(1)
		14 500	
Share of profit:			
Darius	8 700		(1of)
Edgar	<u>5 800</u>		(1of)
		<u>14 500</u>	

[23]

Page 8	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

(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

Non-current assets

	Cost	Accumulated Book value depreciation	
	\$	\$	\$
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			
<u>Current liabilities</u>			
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]