

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge Ordinary Level

MARK SCHEME for the October/November 2015 series

7110 PRINCIPLES OF ACCOUNTING

7110/21

Paper 2 (Structured), maximum raw mark 120

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1 (a)

Carston Garages account

Date	Details	\$	Date	Details	\$
July 12	Bank	194 (1)	July 1	Balance b/d	200
	Discount received	6 (1)	July 15	Motor van expenses	120 (1)
July 31	Balance c/d	<u>460</u>	July 26	Motor van expenses	<u>340 (1)</u>
		<u>660</u>			<u>660</u>
			Aug 1	Balance b/d	460 (1of)

[5]

(b)

Motor van expenses account

Date	Details	\$	Date	Details	\$
July 1	Balance b/d	3200	July 31	Income statement/P & L	3985 (1of)
July 15	Carston Garages	120 (1)			
July 23	Bank	200 (1)			
July 26	Carston Garages	340 (1)			
July 31	Balance b/d	<u>125</u>			—
		<u>3985</u>			<u>3985</u>
			Aug 1	Balance b/d	125 (1)

[5]

(c)

Account	Subdivision of the ledger
Sales	General/Nominal (1)
T Wong (credit customer)	Sales/Trade receivables (1)

[2]

Page 3	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2015	7110	21

(d) (i) Expenditure spent running the business on a day to day basis. (1)
 Expenditure expected to provide a benefit within the current financial year. (1) [2]

(ii) A receipt from the sale of a non-current asset. (1)
 A loan received. (1)
 Additional capital. (1)
 Income/revenue from non-trading activities (1)
 Basic statement (1) expansion or example (1)
 Max 2 [2]

(e)

Transaction	Revenue expenditure	Revenue receipt	Capital expenditure	Capital receipt
Sale of motor van				✓ (1)
Purchased new motor van tyres	✓ (1)			
Cash discount received		✓ (1)		
Purchase a new motor van			✓ (1)	

Accept any alternative indication e.g. * or X [4]

[Total: 20]

2 (a)

General Journal

	Debit \$	Credit \$
Purchases	950 (1)	
Suspense		950 (1)
Suspense	170 (1)	
Discount received		170 (1)
Rent	180 (1)	
Suspense		180 (1)
Office fixtures/Fixtures & fittings	2 300 (1)	
General expenses		2 300 (1)

[8]

(b)

Suspense account

Date	Details	\$	Date	Details	\$
30 Sept	Balance/ Difference on TB/ Trial balance	960 (1of)	30 Sept	Purchases	950 (1)
	Discount received	170 (1)		Rent	180 (1)
		—			—
		<u>1 130</u>			<u>1 130</u>

[4]

(c)

	Error	Increase/Decrease/ No effect	Amount \$
1	The total of the purchases journal had been under cast by \$950.	<i>Decrease</i>	950
2	Discount received, \$85, had been debited to the discount received account.	Increase (1)	170 (1)
3	A payment of rent, \$750, had been correctly entered in the cash book, but recorded in the rent account as \$570.	Decrease (1)	180 (1)
4	The purchases of office fixtures, \$2300, had been recorded in the general expenses account.	Increase (1)	2 300 (1)

[6]

(d) This error occurs when a transaction is entered using the correct amount and on the correct side, but in the wrong account **(1)** of the same class. **(1)**

Right amount **(1)**/right side **(1)**

Wrong account **(1)**/same class **(1)**

Wrong name or person **(1)**/same class **(1)**

Allow any two combinations from the above answers.

[2]

[Total: 20]

Page 6	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2015	7110	21

3 (a)

Aina and Barry
Appropriation Account for the year ended 30 April 2015

	\$	\$
Profit for the year (19 800 – 2000)		17 800 (1)
Add interest on drawings: Aina	450 (1)	
Barry	<u>600 (1)</u>	
		<u>1 050</u>
		18 850
Less Interest on capital: Aina	2 000 (1)	
Barry 400 (1) + 800 (1)	<u>1 200 (2)</u>	
	3 200	
Salary: Barry	<u>8 000</u>	
		<u>(11 200)</u>
		7 650
Share of profit: Aina		4 590 (1of)
Barry		<u>3 060 (1of)</u>

Accept alternative presentation

[8]

(b)

Current accounts

Details	Aina \$	Barry \$	Details	Aina \$	Barry \$
Balance b/d	800		Balance b/d		6 500
Drawings	7 500	10 000 (1)	Interest on loan		2 000 (1of)
Interest on drawings	450	600 (1of)	Interest on capital	2 000	1 200 (1of)
			Salary		8 000
Balance c/d		10 160	Share of profit	4 590	3 060 (1of)
	_____	_____	Balance c/d	<u>2 160</u>	_____
	<u>8 750</u>	<u>20 760</u>		<u>8 750</u>	<u>20 760</u>
Balance b/d	2 160		Balance b/d		10 160 (1)of both

[6]

- (c) More skills/expertise available
 More capital available
 Responsibilities shared
 Discussions before decisions are made
 Share losses
 Max 2 × **(1)**

[2]

(d)

Suggestions		Accounting principle/concept
1	Remove the provision for doubtful debts from the income statement.	Prudence or Accrual/Matching (1)
2	Increase the value of the premises from cost to the current market value.	Historic cost (1)
3	Reduce the depreciation rate on computers from 30% to 10% per annum.	Consistency (1) or Prudence (1)
4	Record expenses paid without adjustment for amounts owing.	Accrual/Matching (1)

[4]

[Total: 20]

Page 9	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2015	7110	21

4 (a) (i) $90\,000 \times \frac{140}{100} = 126\,000$ (2)

$90\,000 + 36\,000$ (1) = 126 000 (1) [2]

(ii) $90\,000 - (11\,000 + 37\,000)$ (1) = 116 000 (2) [2]

(iii) $36\,000$ (1) – 18 900 = 17 100 (2) [2]

(b)

	Workings	30 September 2015	30 September 2014
Profit margin (profit for the year to revenue)	$\frac{18\,900}{126\,000} \times 100 =$ (1of)	15.00% (1of)	12.13%
Rate of inventory turnover	$\frac{90\,000}{(11\,000 + 37\,000)/2} =$ (1)	3.75 times(1of)	2.00 times
Working capital ratio (current ratio)	$\frac{37\,000 + 14\,200 + 2\,800}{27\,000} =$ (1)	2.00:1 (1of)	2.60:1
Quick ratio (acid test ratio)	$\frac{14\,200 + 2\,800}{27\,000} =$ (1)	0.63:1 (1of)	1.10:1

[8]

- (c) (i) Inventory turnover has increased (1)
 Inventory is being sold at a faster rate (1)
 Inventory level has increased substantially over the year (1)
 Inventory control is needed (1)
 MAX 3 × (1) [3]

- (ii) Both liquidity ratios have fallen in the year (1)
 Working capital ratio is at the benchmark level of 2:1 (1)
 Quick ratio is lower than the yardstick of 1:1 but is still at an acceptable level (1)
 There is very little cash available to pay trade payables (1)
 MAX 3 × (1) [3]

Based upon own figures.

[Total: 20]

Page 10	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2015	7110	21

5 (a)

Cheng			
Income Statement for the year ended 30 September 2015			
	\$	\$	
Revenue		315 000	(1)
Inventory 1 October 2014	36 800		
Purchases (165 000 (1) + 3000)	168 000		(1)
Purchase returns	<u>(2 600)</u>		(1)
	202 200		
Less Inventory 30 September 2015	<u>(29 980)</u>		
Cost of sales		<u>(172 220)</u>	(1)
Gross profit		142 780	(1of)
Plus other receivables:			
Commission receivable (12 500 (1) + 2500)		<u>15 000</u>	(1)
		157 780	
Less expenses:			
Wages and salaries	34 800		(1)
Motor vehicle expenses	17 200		(1)
Rent (15 000 (1) – 3000)	12 000		(1)
Bank loan interest (1200 (1) + 600)	1 800		(1)
Heat and light	6 500		(1)
Operating expenses (7100 (1) + 1100)	8 200		(1)
Depreciation: Motor vehicles	8 000		(1)
Fixtures and fittings			(1)
Bad debts	2 000		(1)
Increase in Provision for doubtful debts	<u>600</u>		(2)
		<u>(94 700)</u>	
Profit for the year		<u>63 080</u>	

[22]

(b)

Cheng
Statement of Financial Position at 30 September 2015

Assets

Non-current assets	Cost	Accumulated depreciation	Book value
	\$	\$	\$
Motor vehicles	50 000	18 000	32 000 (2) (1of)
Fixtures and fittings	<u>24 000</u>	<u>21 600</u>	<u>2 400</u> (2) (1of)
	<u>74 000</u>	<u>39 600</u>	<u>34 400</u>
Current assets			
Inventory			29 980 (1)
Trade receivables		32 000 (1)	
Less Provision for doubtful debts		<u>(1 600)</u>	30 400 (1)
Other receivables (3000 (1) + 2500 (1))			5 500
Cash and bank (19 500 (1) – 3000 (1))			<u>16 500</u>
			<u>82 380</u>
Total assets			<u>116 780</u>
Capital and liabilities			
Capital			15 000
Profit for the year			<u>63 080</u> (1) of
			78 080
Less Drawings			<u>(18 000)</u> (1)
			60 080
Non-current liabilities/Long-term liabilities (1)			
6% Bank loan			30 000 (1)
Current liabilities			
Trade payables			25 000 (1)
Other payables (600 (1) + 1100 (1))			<u>1 700</u>
			<u>26 700</u>
Total liabilities			<u>116 780</u>

[18]

[Total: 40]