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 May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.
1 Key

(a) A [1]
(b) C [1]
(c) B [1]
(d) B [1]
(e) A [1]
(f) D [1]
(g) D [1]
(h) C [1]
(i) C [1]
(j) B [1]

[Total: 10]

2 (a) Purchases (ledger)/Trade Payables / Creditors [1]

(b) Cost and net realisable value [1]

(c) | Income | Expense |
---|---|---|
Bad debt recovered | ✓ (1) | |
Carriage inwards | | ✓ (1)
Discount received | ✓ (1) | |

[3]

(d) (i) When a transaction is entered using the correct amount and on the correct side (1), but in the wrong class of account. (1)
Example – Motor Vehicles debited to the account of Motor Expenses
Any suitable example of an error of principle (2)

(ii) Compensating errors occur when two or more errors cancel each other out (2)
Example – sales account undercast and wages account undercast
Any suitable example of a compensating error (2) [8]
(e) \(4\% \times \$28\,000 = \$1120\) \([1]\)

(f) (i) \(\$120 - \$87.60 = \$32.40\) (1)

(ii) \(\$87.60\) (1) \([2]\)

(g) Payments $715
Less opening accrual $240 (1)
475
Plus closing accrual $320 (1)
Charge for the year $795 (1) \([3]\)

(h) \((6000 \times \$1.50)\) or \((9000 \times 1\%) \times \frac{1}{2} = \$135\) (1) \([2]\)

[Total: 21]

3 (a) **Mitchell April 8**
Amanda paid \$120 in cash to Mitchell (1)

**Julian April 9**
Amanda received a cheque, \$194, from Julian (1)
Julian was allowed \$6 cash discount for prompt payment (1)

**Sylvia April 14**
Amanda received a cheque, \$180 from Sylvia (1)

**Sylvia April 21**
The cheque, \$180, previously received from Sylvia was dishonoured by the bank (1)

**Equipment April 26**
Amanda purchased equipment, \$2000, by cheque (1)

**Sales April 28**
Amanda sold good for cash \$1300 (1) \([7]\)

(b) This is a contra entry. (1)
Office cash was paid into the bank (1) \([2]\)

(c) (i) The cash balance represents the cash in hand (1)
The bank balance represents a bank overdraft (1) \([2]\)

(ii) Cash balance – current asset (1)
Bank balance – current liability (1) \([2]\)

(iii) It is not possible to take out more cash than is available (1) \([2]\)
(d) Amanda Mitchell account

2012
April 6 Cash 120 (1)

Julian account

2012
April 9 Bank 194 (1)
Discount 6 (1)

Sylvia account

2012
April 21 Bank (dis.chq 180 (1)
April 14 Bank 180 (1)

Equipment account

2012
April 26 Bank 2000 (1)

Sales account

2012
April 28 Cash 1300 (1)

Discount allowed account

2012
April 30 Total for month 6 (1)

+ (1) for dates [9]

[Total: 24]

4 (a) (i) Expenses are overstated (1)
Profit for the year is understated (1) [2]

(ii) Non-current assets are understated (1)
Owner’s capital (Profit) is understated (1) [2]
(b)

<table>
<thead>
<tr>
<th></th>
<th>Capital expenditure</th>
<th>Revenue expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of computer</td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>Purchase of laser printer</td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>Replacement of hard disc in computer</td>
<td></td>
<td>✓ (1)</td>
</tr>
</tbody>
</table>

(c) (i) \((4800 + 750)\) O/F based on answer to (b) – $600 (1) = $4950
\[
\frac{4950}{3 \text{ years (1)}} = $1650 (1) \text{ O/F}
\]

(ii) \((4800 + 750)\) O/F based on answer to (b) – $1650 (1) O/F
\[
= $3900 (1) \text{ O/F}
\]

(d)

<table>
<thead>
<tr>
<th></th>
<th>Non-current tangible asset</th>
<th>Non-current intangible asset</th>
<th>Current asset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office building</td>
<td>✓ (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>✓ (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td></td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>Work in progress</td>
<td></td>
<td></td>
<td>✓ (1)</td>
</tr>
</tbody>
</table>
5 (a) Rachel Smith

Income Statement for the year ended 31 March 2012

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>63 100</td>
<td>(1)</td>
</tr>
<tr>
<td>Less Cost of sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening inventory</td>
<td>3 100</td>
<td>(1)</td>
</tr>
<tr>
<td>Purchases</td>
<td>42 500</td>
<td>(1)</td>
</tr>
<tr>
<td>Less Purchases returns</td>
<td>1 900</td>
<td>(1)</td>
</tr>
<tr>
<td>Carriage inwards</td>
<td>1 050</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>44 750</td>
<td></td>
</tr>
<tr>
<td>Less Closing inventory</td>
<td>3 750</td>
<td>(1)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>41 000</td>
<td>(1) OF</td>
</tr>
<tr>
<td>Less Carriage outwards</td>
<td>540</td>
<td></td>
</tr>
<tr>
<td>Bad debts</td>
<td>190</td>
<td>(1)</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>150</td>
<td>(1)</td>
</tr>
<tr>
<td>Property tax (6000 – 1200)</td>
<td>4 800</td>
<td>(2)</td>
</tr>
<tr>
<td>Wages (7100 + 180)</td>
<td>7 280</td>
<td>(2)</td>
</tr>
<tr>
<td>General expenses</td>
<td>1 620</td>
<td></td>
</tr>
<tr>
<td>Depreciation – Equipment</td>
<td>1 920</td>
<td>(1)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>5 600</td>
<td>(1) OF</td>
</tr>
</tbody>
</table>

(b) (i) \( \frac{22 100}{63 100} \times 100 = 35.02\% \) (1) O/F

(ii) Increase selling prices
     Reduce cost of purchases

Any 1 comment (2)

(c) (i) \( \frac{5 600}{63 100} \times 100 = 8.87\% \) (1) O/F

(ii) Reduce expenses
     Increase gross profit
     Increase other income

Any 1 comment (2)

[Total: 24]

6 (a) The business will continue to operate for an indefinite period of time (1) and there is no intention to close down or significantly reduce the size of the business. (1) [2]

(b) (i) Current assets : Current liabilities [1]

(ii) \( 11 400 : 13 800 = 0.83 : 1 \) (1) [2]
(iii) Unsatisfied (1)  
    The business cannot meet the immediate liabilities from the immediate assets (2)  [3]  

(c)  

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Decrease</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
<td></td>
<td>✓ (1)</td>
</tr>
<tr>
<td>Current assets</td>
<td>✓ (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
<td></td>
<td>✓ (1)</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td>✓ (1)</td>
</tr>
</tbody>
</table>

[4]

(d) To assess whether the interest can be paid when due  
   To assess whether the loan can be repaid when due  
   To assess whether there is security for the loan  
   Any 2 reasons (2) each  [4]

(e) There are not enough non-current assets for security of the loan  
   There is not enough profit to cover the loan interest  
   The business would not be able to re-pay the loan on time  
   Drawings for the year exceed the profit for the year  
   Any 2 reasons (2) each  [4]

(f) Introduce additional capital  
   Admit a partner/form a limited company  
   Mortgage  
   Loans from other sources  
   Sell surplus non-current assets  
   Any 2 (2) each  [4]

[Total: 24]