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Mark schemes must be read in conjunction with the question papers and the report on the examination.

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### Mai Wang Cash Book

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>Discount Allowed $</th>
<th>Cash  $</th>
<th>Bank  $</th>
<th>Date</th>
<th>Details</th>
<th>Discount Received $</th>
<th>Cash  $</th>
<th>Bank  $</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Balance b/d</td>
<td></td>
<td></td>
<td></td>
<td>2011</td>
<td>Balance b/d</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>July 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>July 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Sales (1)</td>
<td>42</td>
<td>300</td>
<td></td>
<td>15</td>
<td>Drawings (1)</td>
<td></td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>9</td>
<td>Mark Fu (1)</td>
<td>3</td>
<td>147</td>
<td></td>
<td>23</td>
<td>Sally Tan (1)</td>
<td></td>
<td></td>
<td>468</td>
</tr>
<tr>
<td>30</td>
<td>Cash (1)</td>
<td></td>
<td>192</td>
<td></td>
<td>29</td>
<td>Mulyani Ltd (dishonoured cheque) (1)</td>
<td></td>
<td></td>
<td>330</td>
</tr>
<tr>
<td>31</td>
<td>Balance c/d</td>
<td></td>
<td>5 159</td>
<td></td>
<td>30</td>
<td>Bank (1)</td>
<td></td>
<td></td>
<td>192</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31</td>
<td>Balance c/d</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>3</td>
<td>292</td>
<td>5 798</td>
<td>2011</td>
<td></td>
<td>12</td>
<td>292</td>
<td>5 798</td>
</tr>
<tr>
<td>Aug 1</td>
<td>Balance b/d (1)O/F</td>
<td>100</td>
<td></td>
<td></td>
<td>Aug 1</td>
<td>Balance b/d (1)O/F</td>
<td></td>
<td></td>
<td>5 159</td>
</tr>
</tbody>
</table>

+ (1) dates

[10]
(b) $5 159 (1)O/F  
Liability (1)O/F  [2]

(c) (i) A statement prepared by the trader (1) to explain why the balance on the bank column in the cash book differs from the balance on the bank statement (1) [2]

(ii) Cheques received by the trader and recorded in the cash book but which have not yet been recorded as being received by the bank [2]

(iii) Cheques paid by the trader and recorded in the cash book but which have not yet been recorded as being paid by the bank [2]

[Total: 18]

2 (a) 

Profit for the year before preference share dividend  174 000  
Less Preference share dividend  4 000 (2)  
Profit for the year after preference share dividend  170 000 (1) [3]

(b) 

Kapiti Ltd  
Profit and Loss Appropriation Account for the year ended 31 August 2011

$ $  
Profit for the year  170 000 (1)O/F  
Less Transfer to general reserve  25 000 (1)  
Dividends paid – Ordinary  20 000 (2)  
Dividends proposed – Ordinary  40 000 (2)  85 000  
Profit retained in the year  85 000 (1)  
Retained profit brought forward  90 000 (1)  
Retained profit carried forward  175 000 (1)O/F  

Horizontal format acceptable  [9]

(c) (i) general reserve  $113 000 (1)  
(ii) retained profit  $175 000 (1)O/F  [2]

(d) Interim ordinary share dividend will not appear in the balance sheet (1)  

This has already been paid (1) and so is no longer a liability (1)  [3]

(e) The liability of the member (shareholders) of a company for the debts of the company is limited to the amount they agree to pay the company for their shares  [2]
(f) (i) Preference shareholders receive a fixed rate of dividend
Preference share dividend is payable before ordinary share dividend
Preference shareholders are members of the company
Preference shares are part of the capital of the company
Preference shareholders are repaid before ordinary shareholders in the event of the
company being wound up
Preference shareholders are not usually entitled to vote at shareholders’ meetings

Or other relevant point

Any 2 points (2) each [4]

(ii) $20 000 [1]

(iii) $1 000 [1]

(iv) Reduction in profit available for ordinary shareholders
Prior claim on the assets of the company in the event of a winding up

Or other relevant point

Any one point (2) [2]

[Total: 27]

3 (a) Assist in the location of errors
Provide instant totals of trade receivables and trade payables
Proves the arithmetical accuracy of the sales/purchases ledgers
Enable a balance sheet to be prepared quickly
Provide a summary of the transactions relating to trade receivables and trade payables
Provide an internal check on sales/purchases ledgers – may reduce fraud

Or other relevant points

Any 2 points (1) each [2]

(b) Overpayment of amount due by a debtor
Cash discount not deducted by debtor before payment made
Goods returned by debtor after payment of amount due
Payment made in advance by debtor

Any 1 point (1) [1]
(c) 

Ajit Singh 
Sales ledger control account 

<table>
<thead>
<tr>
<th>Year</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td>Balance b/d</td>
<td>15 940</td>
<td>Dr</td>
</tr>
<tr>
<td>31</td>
<td>Sales</td>
<td>14 820</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Interest on overdue account</td>
<td>10</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td>100</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>15 252</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Discounts allowed</td>
<td>355</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Sales returns</td>
<td>1 280</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Bad debts</td>
<td>105</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Contra entry</td>
<td>485</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td>13 393</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nov</td>
<td>Balance b/d</td>
<td>13 393</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>O/F</td>
<td>100</td>
<td>(1)</td>
</tr>
</tbody>
</table>

+(1) for dates 

Alternative presentation 

Ajit Singh 
Sales ledger control account 

<table>
<thead>
<tr>
<th>Year</th>
<th>Debit</th>
<th>Credit</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oct</td>
<td>Balance</td>
<td>15 940</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Sales</td>
<td>14 820</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Interest on overdue account</td>
<td>10</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Bank</td>
<td>15 252</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Discounts allowed</td>
<td>355</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Sales returns</td>
<td>1 280</td>
<td>(1)</td>
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<tr>
<td></td>
<td>Bad debts</td>
<td>105</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Contra entry</td>
<td>485</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>Balances</td>
<td>13 393</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

+(1) for dates 

(d) \[ \frac{13 393 \text{ O/F}}{165 900} \times \frac{365}{1} = 29.47 \text{ days} = 30 \text{ days} \] 

(e) Satisfied if O/F in (d) 30 days or below (1) 
He is receiving the amount due within period of credit allowed (2) 

Or 
Unsatisfied if O/F in (d) above 30 days (1) 
He is not receiving the amount due within period of credit allowed (2) 

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(f) Can use the money to pay the trade payables
   Can use the money within the business
   May reduce a bank overdraft
   May reduce the need for a bank overdraft
   Reduces the risk of bad debts

Or other relevant point

Any 1 point (1) [1]

[Total: 21]

4 (a) Ahmed El Din
   Manufacturing Account for the year ended 30 September 2011

   $            $            
   Cost of raw materials
   Opening inventory of raw materials  17 300
   Purchases of raw materials  203 300 (1)  220 600

   Closing inventory of raw materials  19 400  201 200 (1)

   Direct factory wages
   (199 500 (1) + 2 750 (1) – 2 300 (1))  199 950
   Prime cost  401 150 (1)

   Factory indirect wages  42 600 (1)

   Factory general expenses
   (122 400 (1) – 250 (1))  122 150

   Depreciation factory machinery
   (132 500 + 5 900 (1) – 124 000 (1))  14 400  179 150
   580 300 (1)O/F

   Add Opening work in progress  9 200
   Less Closing work in progress  10 400  (1 200) (1)

   Cost of production  579 100 (1)O/F

   Horizontal format acceptable [14]
(b) Ahmed El Din
Income Statement for the year ended 30 September 2011

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>858 000</td>
<td>(1)</td>
</tr>
<tr>
<td>Less Cost of sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening inventory finished goods</td>
<td>29 300</td>
<td>(1)</td>
</tr>
<tr>
<td>Cost of production</td>
<td>579 100</td>
<td>(1)O/F</td>
</tr>
<tr>
<td>Less Goods for own use</td>
<td>900</td>
<td>(1)</td>
</tr>
<tr>
<td></td>
<td>578 200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>607 500</td>
<td></td>
</tr>
<tr>
<td>Less Closing inventory of finished goods</td>
<td>31 200</td>
<td>(1)</td>
</tr>
<tr>
<td>Gross profit</td>
<td>281 700</td>
<td>(1)O/F</td>
</tr>
</tbody>
</table>

Horizontal format acceptable [6]

(c) Either The profit should not be overstated
   Or All possible losses should be provided for (1)

Example
Either Inventories were valued at the lowest figure
   Or Depreciation of the factory machinery was included (1) [2]

(d) Revenue of the accounting period must be matched against the costs of the same period (1)

Example
Either Direct wages due at year end were added
   Or Direct wages due at start of year were deducted
   Or General expenses prepaid at year end were deducted
   Or Loss in value of machinery was included in overheads (1) [2]

(e) The business is treated as being separate from the owner of the business (1)

Example Goods taken by owner were deducted (1) [2]

[Total: 26]

5 (a) Selling goods at higher prices
    Reducing the rate of trade discount
    Passing on increased costs to customers
    Buying goods at cheaper prices

   Or other suitable point

Any 2 reasons (1) each [2]

(b) Increase in the gross profit percentage
    Reduction in expenses
    Increase in other income

   Or other suitable point

Any 2 reasons (1) each [2]
(c) (i) Year ended 31 July 2010
\[21\% - 10\% = 11\% \] (1)

(ii) Year ended 31 July 2011
\[25\% - 11\% = 14\% \] (1) [2]

(d) Percentage of expenses has increased (1)
The efficiency of the business in controlling expenses has decreased (2)

Or other suitable answer based on O/F answers to (c) [3]

(e) \[
\frac{4500 + 3800 + 50 + 1000}{5600} = 9350:5600 \]
\[= 1.67:1 \] (1) [2]

(f) \[
\frac{3800 + 50 + 1000}{5600} = 4850:5600 \]
\[= 0.87:1 \] (1) [2]

(g) Unsatisfied (1)
The ratio has decreased. It is now below 1:1
She cannot pay her immediate liabilities from her liquid assets
She is relying on the sale of stock to be able to pay her immediate liabilities

Any two points (1) each

Accept alternative answers based on O/F answer to (f) [3]

(h) To be able to meet debts when they fall due
To be able to take advantage of cash discounts
To be able to take advantage of business opportunities as they arise
To ensure that there is not difficulty in obtaining further supplies

Or other suitable explanation

Any 1 point (2) [2]

(i) (ii) Effect Working capital decreases by $20 (1)
Explanation Current assets decrease by $20 as petty cash decreases. There is no change in the current liabilities. (1)

(iii) Effect Working capital increases by $10 (1)
Explanation The current assets decrease by $240 and the current liabilities decrease by $250. (1)

(iv) Effect Working capital decreases by $40 (1)
Explanation The current assets decrease by $40 as the inventory decreases by $270 and the cash increases by $230. There is no change in the current liabilities. (1) [6]
(j) (i) Bank manager
   Prospects of any requested loan/overdraft being repaid when due
   Prospects of any interest on loan/overdraft being paid when due
   Security available to cover any loan/overdraft

(ii) Employee
   Ability of business to continue operating
   Prospects for jobs and wages

(iii) Supplier of goods on credit
   Assessment of liquidity position
   Identifying how long it takes the business to pay creditors
   Identifying future prospects of the business
   Establishing a credit limit

(iv) Potential purchaser of the business
   Profitability of the business
   Value of the assets of the business

Or other suitable reason in each case

Any 1 acceptable reason for each person \[4\]

[Total: 28]