Cambridge International Examinations
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 **May/June 2017**

MARK SCHEME

Maximum Mark: 120

Published

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 May/June 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

Question	Answer	Marks
1(a)	Adam account <table><tr><td>Date</td><td>Details</td><td>$</td><td></td><td>Date</td><td>Details</td><td>$</td><td></td></tr><tr><td>2017</td><td></td><td></td><td></td><td>2017</td><td></td><td></td><td></td></tr><tr><td>April 11</td><td>Purchase returns</td><td>80</td><td>**(1)**</td><td>April 1</td><td>Balance b/d</td><td>1500</td><td></td></tr><tr><td>28</td><td>Bank</td><td>1455</td><td>**(1)**</td><td>April 9</td><td>Purchases</td><td>960</td><td>**(1)**</td></tr><tr><td></td><td>Discount received</td><td>45</td><td>**(1)**</td><td></td><td></td><td></td><td></td></tr><tr><td>30</td><td>Balance c/d</td><td>880</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td></td><td>2460</td><td></td><td></td><td></td><td>2460</td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>May 1</td><td>Balance b/d</td><td>880</td><td>**(1)of**</td></tr></table>	**5**
1(b)	(i) Purchases journal / daybook **(1)** (ii) Credit note **(1)** (iii) Purchases **(1)**	**3**
1(c)(i)	Encourage purchases in bulk To encourage regular custom Allowed to businesses in same trade To enable another trader to make a profit Other valid answers accepted One point · **(1)** mark	**1**
1(c)(ii)	Encourage swift payment Encourage payment within the specified period of credit To encourage payment by the due date Other valid answers accepted One point · **(1)** mark	**1**

Question	Answer	Marks
1(d)	Cash Book (bank columns)	4

Date	Details	$	Date	Details	$
2017			2017		
April 1	Balance b/d	490	April 11	XYZ Supplies Ltd	450
5	Rent receivable	200	14	West Electricity	325
18	Cash sales	640	17	The Repair Company	175
30	Cash sales	510	27	Cash	90
30	Commission	250 **(1)**	28	Adam	1455
	Dividend	15 **(1)**	30	United utilities	150 **(1)**
	Balance c/d	540			
		2645			2645
			May 1	Balance b/d	540 **(1 o/f))**

Question	Answer	Marks
1(e)	Bank Reconciliation Statement at 30 April 2017	4

	$		$		
Balance on bank statement			730	Credit	
Plus					
Cash sales banked but not recorded	510	**(1)**			
			1240		
Less					
Unpresented cheque: West Electricity	325	**(1)**			
Adam	1455	**(1)**			
			1780		
Balance as per cash book			540	Credit	**(1)of**

Question	Answer	Marks
1(f)	Direct debit **(1)** is an arrangement which instructs the bank to transfer money from a person's account on agreed dates. **(1)**	2
	Total:	**20**

Question	Answer	Marks
2(a)	General journal	10

Details	Dr		Cr	
	$		$	
Drawings	500	**(1)**		
Bank			500	**(1)**
Tung	270	**(1)**		
Sales			270	**(1)**
Suspense	300	**(1)**		
Discount allowed			150	**(1)**
Discount received			150	**both**
Wages	210	**(1)**		
General expenses			210	**(1)**
Sales	800	**(1)**		
Disposal / sale of non-current asset			800	**(1)**

Question	Answer	Marks
2(b)	Revision of profit for the year ended 31 March 2017	6

		Increase	Decrease	
		$	$	$
	Draft profit for the year			9200
1	No entries had been made in the books in respect of $500 which Hong had withdrawn from the bank for his personal use.	No effect **(1)**		
2	Goods sold on credit to Tung, $960, had been recorded in the sales journal as $690.	270 **(1)**		
3	Discount received, $150, had been debited to the discount allowed account.	300 **(1)**		
4	A payment of wages, $210, had been posted to the general expenses account.	No effect **(1)**		
5	A sale of fixtures and fittings, at book value of $800, received by cheque, had been recorded in the sales account.		800 **(1)**	
		570	800	
	Revised profit for the year			8970 **(1)of**

Question	Answer	Marks
2(c)(i)	Compensating error There are two separate and independent errors in the books **(1)** The effect of those errors is that combined they cancel each other out **(1)**	2
2(c)(ii)	Error of principle The entries are made using the correct amount and on the correct side **(1)** One of the entries is posted incorrectly to the wrong class of account. **(1)**	2
	Total:	**20**

Question	Answer	Marks
3(a)	B Limited Statement of Changes in Equity for the year ended 30 April 2017	8

	Ordinary share capital $	General Reserve $	Retained Profits $	Total $
Balance at 1 May 2016	150 000	75 000	410 000	635 000
Share issues	50 000 **(1)**			50 000
Profit for the year			90 000 **(1)**	90 000
Transfer to general reserve		50 000 **(1)**	(50 000)	-
Dividend paid(interim)			(10 000) **(1)**	(10 000)
Dividend paid (final)			(20 000) **(1)**	(20 000)
Balance at 30 April 2017	200 000	125 000 **(1 o/f)**	420 000 **(1 o/f)**	745 000 **(1 o/f)**

Question	Answer	Marks
3(b)	B Limited Statement of Financial Position (extract) at 30 April 2017	6

	$		$	
Equity and reserves				
Ordinary shares of $1 each			200 000	
			200 000	**(1)**
General reserve	125 000	**(1)of**		
Retained profits	420 000	**(1)of**		
			545 000	
Total equity			745 000	**(1) w+f**
Non-current liabilities			80 000	**(1)**
Debentures				
			825 000	**(1)of**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
<table>
<tr><th></th><th>Ordinary share capital</th><th>Preference share capital</th></tr>
<tr><td>1</td><td>If business wound up receive funds after liabilities and preference shares (1)</td><td>If business wound up receive funds after liabilities (1)</td></tr>
<tr><td>2</td><td>Second call on profits for dividend (1)</td><td>First call on profits for dividend (1)</td></tr>
<tr><td>3</td><td>No maximum dividend (1)</td><td>Maximum percentage dividend (1)</td></tr>
<tr><td>4</td><td>Voting rights (1)</td><td>Not normally voting rights (1)</td></tr>
</table>
Accept other valid points</td><td>Max 4</td></tr>
<tr><td>3(d)</td><td>Retains funds in the business (1)
Funds retained for major expenditure such as purchasing non-current assets. (1)
Profits ‘ploughed back’ for business to grow. (1)
Profits held for emergencies / contingencies (1)
2 points × (1)</td><td>Max 2</td></tr>
<tr><td></td><td>Total:</td><td>20</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(i)</td><td>Cost of sales 240 000 × $\frac{100\ \mathbf{(1)}}{100+125}$ = $192 000 (1)</td><td>2</td></tr>
<tr><td>4(a)(ii)</td><td>Profit for the year 240 000 – 192 000 = 48 000 (1) – 35 000 =$ 13 000 (1)</td><td>2</td></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th></th><th>Workings</th><th>31 March 2017</th><th>31 March 2016</th></tr>
<tr><td>Gross profit/sales (Gross profit margin)</td><td><u>48 000</u> (1of) × 100
240 000</td><td>20.00% (1 o/f)</td><td>15.00%</td></tr>
<tr><td>Rate of inventory turnover</td><td><u>192 000</u> of
(27 000 + 21 000)/2 (1)</td><td>8 times (1of)</td><td>5.33 times</td></tr>
<tr><td>Working capital ratio (Current ratio)</td><td><u>21 000 + 16 000 + 2 000</u> (1)
20 000</td><td>1.95:1 (1)</td><td>3.15:1</td></tr>
<tr><td>Quick ratio (acid test ratio)</td><td><u>16 000 + 2 000</u> (1)
20 000</td><td>0.9:1 (1)</td><td>0.32:1</td></tr>
</table>
</td><td>8</td></tr>
<tr><td>4(c)</td><td>The profit margin on each sales has increased due to increased prices (1) / reduced costs (1) / or a change in product mix (1).
The quick ratio has improved and is close to the recommended levels of 1:1 (1).
This may be due to increase in bank account / trade receivables or reduction in current liabilities (1).

(1) Mark for commenting on each percentage or ratio and (1) mark for reason
Accept other valid points</td><td>Max 4</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(d)</td><td>
<table>
<tr><td rowspan="2"></td><td colspan="3">Profit for the year</td><td colspan="3">Working capital</td></tr>
<tr><td>increase</td><td>decrease</td><td>no effect</td><td>increase</td><td>decrease</td><td>no effect</td></tr>
<tr><td>1</td><td></td><td></td><td>✓</td><td>✓</td><td></td><td></td></tr>
<tr><td>2</td><td>✓</td><td></td><td></td><td></td><td></td><td>✓</td></tr>
<tr><td>3</td><td></td><td>✓</td><td></td><td>✓</td><td></td><td></td></tr>
</table>
</td><td>4</td></tr>
<tr><td></td><td>Total:</td><td>20</td></tr>
</table>

Question	Answer	Marks
5(a)	Bik Income statement for the year ended 28 February 2017	23

	$	$	$	
Revenue			410 000	**(1)**
Returns			(15 600)	**(1)**
			394 400	
Inventory 1 March 2016	24 050			**(1)**
Purchases	216 800			**(1)**
Returns	(9 550)			**(1)**
		207 250		
		231 300		
Inventory 30 Feb 2017		(20 700)		**(1)**
Cost of sales			(210 600)	**(1)of+w**
Gross profit			183 800	
Plus				
Other income:				
Rent receivable				
(15 000**(1)** + 3 000**(1)**)			18 000	
			201 800	
Less expenses:				
Administration expenses		71 000		**(1)**
Insurance		6 800		**(1)**
Electricity		10 200		**(1)**
Staff salaries				
(59 700 **(1)** – 8 000 **(1)**)		51 700		
Advertising expenses		27 500		**(1)**
General expenses				
(14 600 + 5 000)		19 600		**(1)**
Depreciation:				
Leasehold buildings		4 500		**(1)**
Shop fixtures		4 800		**(1)**
Computers equipment		5 400		**(1)**
Disposal		6 000		**(1)**
Loan interest		4 800		**(1)**
Bad debts		2 500		**(1)**
Increase in				
Provision for doubtful debts		500		**(1)**
			(215 300)	
Loss for the year			(13 500)	

Question	Answer	Marks
5(b)	Statement of Financial Position at 28 February 2017	**(17)**

	$ Cost	$ Accumulated depreciation	$ Net book value	
Non-current assets				
Leasehold buildings	90 000	18 000	72 000	**(1of)**
Shop fixtures	32 000	18 800	13 200	**(1of)**
Computer equipment	60 000	47 400	12 600	**(1of)**
	182 000	84 200	97 800	**(1)**
Current assets				
Inventory		20 700		**(1)**
Trade receivables (34 500-2 500)	32 000			**(1)**
Less Provision for doubtful debts	(1 600)			
		30 400		**(1)of**
Other receivables		3 000		**(1)**
Bank (20 500 **(1)** – 8 000 **(1)**)		12 500		
			66 600	
			164 400	
Capital at 1 March 2016			100 000	
Loss for the year			(13 500)	**(1of)**
			86 500	
Drawings (9 500 **(1)** + 8 000 **(1)**)			(17 500)	
			69 000	
Current liabilities				
Trade payables		25 600		**(1)**
Accruals (4 800 **(1)** + 5 000 **(1)**)		9 800		
8% Bank loan (repayable 31 December 2017)		60 000		**(1)**
			95 400	
			164 400	

	Total:	**40**