CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/21 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.

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1 (a) Cash Book (bank columns)

		$				$	
8 April	Sales	1204		1 April	Balance b/d	614	
18 April	Trinity Stores	780		2 April	Stanning	88	
23 April	Xain	73		8 April	Chong	640	
24 April	Li Ye	37		23 April	Zaine	59	
				27 April	Pang	94	
30 April	Dividend	41	**(1)**	30 April	Charges	16	**(1)**
				30 April	MDA Electricity	104	**(1)**
				30 April	Balance c/d	520	**(1)**
		2135				2135	
1 May	Balance b/d	520	**(1of)**				

[5]

(b) Bank Reconciliation Statement at 30 April 2014

	$		$	
Balance as per bank statement			469	
Plus				
Amount not yet credited – Xain	73	**(1)**		
Li Ye	37	**(1)**		
			110	
			579	
Less				
Cheque not yet presented – Zaine			59	**(1)**
Balance as per cash book			520	**(1of)**

[4]

(c) Standing order **(1)** [1]

(d) Trinity Stores account

		$				$	
1 April	Balance b/d	800	**(1)**	10 April	Sales returns	80	**(1)**
8 April	Sales	720	**(1)**	18 April	Bank	780	**(1)**
					Discount allowed	20	**(1)**
				30 April	Balance c/d	640	
		1520				1520	
1 May	Balance b/d	640	**(1)**				

[6]

(e) Credit note **(1)** [1]

(f) Bulk purchases
Enable Trinity Stores to sell and make a profit
To attract repeat business
They are in the same trade
(1) × 2 points [2]

[Total: 19]

2 (a)

Insurance account

		$				$	
1 April 2013	Balance b/d	500		31 March 2014	Income statement **(1)**	4350	**(1)**
31 March 2014	Bank	4000	**(1)**		Balance c/d	150	
		4500				4500	
1 April 2014	Balance b/d	150	**(1)**				

Commission receivable account

		$				$	
31 March 2014	Income statement **(1)**	1650	**(1)**	1 April 2013	Balance b/d	250	
				To 31 March 2014	Bank	1200	**(1)**
				31 March 2014	Balance c/d	200	
		1650				1650	
1 April 2014	Balance b/d	200	**(1)**				

[8]

(b)

Journal

	Dr $	Cr $	
Purchases	450		**(1) Both**
Cash		450	
Purchases	360		**(1)**
C Maxley		360	**(1)**
Motor vehicle	6000		**(1) Both**
Purchases		6000	
Purchases	1640		**(1)**
Y Li		1640	**(1)**

[6]

(c)

		Type of error	Effect on gross profit
1	Goods purchased for cash, $450, had not been recorded in the books.	*Omission*	*Decrease $450*
2	Goods purchased on credit from C Maxley, $950, had been recorded in the books as $590.	Original entry **(1)**	Decrease $360 **(1)**
3	A purchase of a motor vehicle, $6000, had been recorded in the purchases account.	Principle **(1)**	Increase $6000 **(1)**
4	Goods purchased on credit from Y Li, $820, had been credited to the purchases account and debited to Y Li.	Reversal **(1)**	Decrease $1640 **(1)**

[6]

[Total: 20]

3 **(a)**

160 hours @ $6 =	960		
20 hours @ $9 =	180		
	1140	**(1)**	
Tax and social security	240	**(1)**	
Net pay	900	**(1)**	[3]

(b)

Millenium Social Club
Café Income Statement for the year ended 30 April 2014

	$		$	
Revenue			41 000	
Less				
Opening inventory	930			
Purchases (12 400 + 1 100 **(1)** – 1 250 **(1)**)	12 250			
	13 180			
Closing inventory	(790)	**(1)**		
Cost of sales	12 390			
Less expenses:				
Wages and taxes (14 000 + 1 140 **(1)** + 114 **(1)**)	15 254			
Heat and light	600	**(1)**		
Depreciation on equipment and fixtures	900	**(1)**		
			(29 144)	
Profit on café			11 856	
			41 000	[7]

(c)

Millenium Social Club
Income and Expenditure Account for the year ended 30 April 2014

	$		$		
Income:					
Subscriptions (5 800 + 750 **(1)** – 400 **(1)** + 600 **(1)**)			6 750		
Profit on café			11 856	**(1of)**	
Donations			3 100	**(1)**	
			21 706		
Less Expenditure:					
Heat and light	600	**(1)**			
Depreciation on equipment and fixtures	900	**(1)**			
Bank loan interest	800	**(1)**			
General expenses	7 600	**(1)**			
Rent	4 000	**(1)**			
			(13 900)		
Excess of income over expenditure			7 806		
			21 706		[10]

[Total: 20]

4 **(a)** **(i)** $300 000 × 20% = $60 000
Cost of goods sold $300 000 – $60 000 = $240 000 **(2)** [2]

(ii)

	$	
Opening inventory	120 000	**(2)**
Purchases	170 000	
	290 000	
Closing inventory	50 000	
Cost of sales	240 000	**(1of)**

[3]

(b) Inventory becomes obsolete
Holding costs of storage etc.
Space occupied by storage
Deterioration/damage of inventory
Risk of theft
Liquidity problems
(1) × 2 points [2]

(c) **(i)** $$\frac{\$50000 + 11000 + 5000}{60000} = \frac{66000\ \textbf{(1)}}{60000\ \textbf{(1)}} = 1.1{:}1\ \textbf{(1)}$$ [3]

(ii) $$\frac{\$11000 + 5000}{60000} = \frac{16000\ \textbf{(1)}}{60000\ \textbf{(1)}} = 0.27{:}1\ \textbf{(1)}$$ [3]

(d) The current ratio is low **(1)** compared to the yardstick of 2:1 **(1)**
OR
The current ratio is low **(1)** due mainly to a high level of trade payables **(1)** [2]

(e)

	Current assets	Current liabilities	Working capital ratio (current ratio)
1 Repaid a $40 000 long term bank loan.	*Decreased $40 000*	*No effect*	*Decreased*
2 Purchased $20 000 of non-current assets on credit.	No effect **(1)**	Increased $20 000 **(1)**	Decreased **(1)**
3 Sold inventory for $20 000 on credit (cost $15 000).	Increased $5 000 **(1)**	No effect **(1)**	Increased **(1)**

[6]

[Total: 21]

5 Chan and Fong

Income Statement and Appropriation Account for the year ended 30 April 2014

	$		$	
Revenue			480 500	
Less Returns			(11 800)	
			468 700	**(1)**
Inventory at 1 May 2014	47 700			
Purchases	209 000			
	256 700			
Less Returns	(10 500)	**(1)**		
	246 200			
Carriage inwards	3 400	**(1)**		
	249 600			
Less Inventory at 30 April 2014	(38 350)			
Cost of sales			(211 250)	**(1)**
Gross profit			257 450	**(1of)**
Less Carriage outwards	10 200	**(1)**		
Office expenses (36 500 – 4 000)	32 500	**(1)**		
Selling expenses	30 800	**(1)**		
Wages and salaries (80 000 – 5 000)	75 000	**(1)**		
Heat and light (4 750 + 750)	5 500	**(1)**		
Bank loan interest (9 000 + 7 000)	16 000	**(1)**		
Bad debt	7 500	**(1)**		
Increase in provision for doubtful debts	750	**(1)**		
Provisions for depreciation:				
Motor vehicles	5 000	**(1)**		
Fixtures and fittings	3 000	**(1)**		
			(186 250)	
Profit for the year			71 200	
Plus Interest on drawings:				
Chan	300	**(1)**		
Fong	500	**(1)**	800	
			72 000	
Less Interest on capital:				
Chan	3 000	**(1)**		
Fong	2 000	**(1)**	(5 000)	
			67 000	
Salary Fong			(10 000)	**(1)**
			57 000	
Share of profit:				
Chan	38 000	**(1of)**		
Fong	19 000	**(1of)**		
			57 000	[22]

(b) Current accounts

Details	Chan $	Fong $	Details	Chan $	Fong $
Drawings	6000	10000 **(1)**	Balance b/d	1500	4000
Drawings salary		5000 **(1)**	Interest on capital	3000	2000
Int on drawings	300	500 **(1)**	Salary		10000
Balance c/d	36200	19500	Share of profit	38000	19000 **(1of)**
	42500	35000		42500	35000
			Balance b/d	36200	19500

[4]

(c)

Chan and Fong
Statement of Financial Position at 30 April 2014

	$ Cost	$ Accumulated depreciation	$ NBV	
Non-current assets				
Land and buildings	250 000	–	250 000	
Motor vehicles	45 000	30 000	15 000	**(1)**
Fixtures and fittings	30 000	15 000	15 000	**(1)**
	325 000	45 000	280 000	
Current assets				
Inventory		38 350 **(1)**		
Trade receivables	47 500			
Less: provision for doubtful debts	(2 850) **(1)**			
		44 650 **(1of)**		
Other receivables		4 000 **(1)**		
Bank (34 500 – 2 000 **(1)**)		32 500		
		119 500		
Less:				
Current liabilities				
Trade payables		36 050 **(1)**		
Other payables: (750 **(1)** + 7 000 **(1)**)		7 750		
		(43 800)		
Net current assets			75 700	**(1of)**
			355 700	
Less				
Non-current liabilities				
8% loan repayable 30 March 2016			(200 000)	**(1)**
			155 700	
Capital accounts:				
Chan		60 000		
Fong		40 000		
			100 000	**(1)**
Current accounts:				
Chan		36 200 Cr		
Fong		19 500 Cr		
			55 700	**(1of)**
			155 700	

[14]

[Total: 40]