

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge Ordinary Level

## **MARK SCHEME for the May/June 2015 series**

# **7110 PRINCIPLES OF ACCOUNTS**

**7110/22**

Paper 2 (Structured), maximum raw mark 120

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1 (a)

Date	Transaction	Source document	Book of prime entry	Effect on owner's capital
April 5	Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount	<i>Cheque counterfoil</i>	<i>Cash book</i>	+30
April 8	Bought goods on credit from Putil, \$800, less 20% trade discount	Purchase invoice (1)	Purchases journal (1)	No effect (1)
April 19	Paid wages in cash \$450	Wages sheet/ payroll (1)	Cash book (1)	-450 (1)
April 23	Returned goods, list price \$200, purchased on 5 April	Credit note (1)	Purchases returns journal (1)	No effect (1)
April 26	Sold a non-current asset at book value, \$2000, on credit	Invoice (1)	General journal (1)	No effect (1)

[12]

(b)

		Putil account	
		\$	\$
April 5	Bank	1470 (1)	April 1 Balance b/d 3000
	Discount received	30 (1)	8 Purchases 640 (1)
23	Purchases returns	160 (1)	
30	Balance c/d	<u>1980</u>	
		<u>3640</u>	
			May 1 Balance b/d <u>1980 (1)of</u>

[5]

(c)

		Wages account	
		\$	\$
April 1	Balance b/d	1750	April 30 Income statement 2050 (1)
19	Cash	<u>450 (1)</u>	Balance c/d <u>150</u>
		<u>2200</u>	<u>2200</u>
May 1	Balance b/d	150 (1)of	

[3]

[Total: 20]

2 (a) The estimate of the loss in value (1) of a non-current asset over its expected working life (1)  
The allocation of cost of asset (1) over its life (1) [2]

(b) Physical deterioration – wear and tear  
Economic reasons – obsolescence  
(1) × one point [1]

(c)

	Year ended 31 March 2014 \$	Year ended 31 March 2015 \$
Premises	1000 (1)	1600 (1)
Motor vehicles	3000 (1)	4500 (1)
Computers	1800 (1)	1400 (1)

[6]

(d)

		Motor vehicles account			
		\$		2014	\$
2013					
April	1 Balance b/d	<u>16000</u>		March	31 Balance c/d <u>16000</u> (1)
		<u>16000</u>			<u>16000</u>
2014				2015	
April	1 Balance b/d	16000 (1)		March	31 Balance c/d <u>25000</u>
	Bank	<u>9000</u> (1)			<u>25000</u>
		<u>25000</u>			
2015					
April	1 Balance b/d	25000	<b>10F</b>		

[4]

		Motor vehicle provision for depreciation account			
		\$		2013	\$
2014				April	1 Balance b/d
March	31 Balance c/d	7000		2014	March 31 Income statement
		<u>7000</u>			<u>3000</u> (1)of
					<u>7000</u>
2015				April	1 Balance b/d
March	31 Balance c/d	11500		2015	March 31 Income statement
		<u>11500</u>			<u>4500</u> (1)of
					<u>11500</u>
				April	1 Balance b/d
					11500 (1)OF

[5]

(e) Accruals/Matching  
Going concern  
(1) × 2 points

[2]

[Total: 20]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge O Level – May/June 2015</b>	<b>7110</b>	<b>22</b>

**3 (a)** Subscriptions account

2014		\$	2015		\$
1 April	Balance b/d	530	31 March	Receipts and payments	3260 (1)
2015				Bad debts	250 (1)
31 March	Income and expenditure	3280 (1)of		Balance c/d	750
	Balance c/d	<u>450</u>			
		<u>4260</u>			<u>4260</u>
1 April	Balance b/d	750 (1)	1 April	Balance b/d	450 (1)

[5]

**(b)** Axton Chess Club  
Income and Expenditure Account for the year ended 31 March 2015

	\$	\$	
Income:			
Subscriptions		3280	
Competition: Fees	1580		
Prizes	<u>(750)</u>		
		830 (1)	
Donations		<u>350 (1)</u>	
		4460	
Less Expenditure:			
Rent (2000 – 70 – 50)	1880 (1)		
Treasurer's salary	250 (1)		
Travelling expenses	1900 (1)		
Other operating expenses (1350 – 190 + 20)	1180 (1)		
Depreciation	700 (1)		
Bad debts	<u>250 (1)</u>		
		<u>6160</u>	
Deficit		<u>(1700)</u>	[8]

(c) Statement of Financial Position at 31 March 2015  
\$

Total assets			
Non-current asset			
Fixtures and equipment	4400	(1)	
Current assets			
Subscriptions in arrears	750	(1)	
Other receivables	<u>50</u>	(1)	
	<u>800</u>		
Total assets	<u>5200</u>		
Total liabilities			
Accumulated fund			
Opening balance	4500		
Deficit for the year	<u>(1700)</u>		
	<u>2800</u>	(1)of	
Current liabilities			
Subscriptions in advance	450	(1)	
Other payables	20	(1)	
Bank overdraft	<u>1930</u>	(1)	
	<u>2400</u>		
Total liabilities	<u>5200</u>		[7]

[Total: 20]

- 4 (a) (i) Revenue:  $125\,000 \times \frac{120}{100} = 150\,000$  (1) [2]
- (ii) Purchases:  $125\,000 + 35\,000 - 15\,000 = 145\,000$  (1) [2]
- (iii) Expenses: Gross profit  $25\,000 - (150\,000 \text{ of } \times \frac{5}{100}) = 17\,500$  (1)of [2]

(b)

	Workings	31 March 2015	31 March 2014
Gross profit margin (gross profit to revenue)	$\frac{25\,000}{150\,000} \times 100 =$ <b>(1)of</b>	16.67% <b>(1)of</b>	25.61%
Return on capital employed (ROCE)	$\frac{7\,500}{40\,000 + 10\,000} =$ <b>(1)</b>	15.00% <b>(1)of</b>	12.00%
Rate of turnover of inventory	$\frac{125\,000}{(15\,000 + 35\,000)/2} =$ <b>(1)</b>	5.00 times <b>(1)of</b>	2.82 times
Quick ratio (acid test ratio)	$\frac{25\,000}{70\,000 + 30\,000} =$ <b>(1)</b>	0.25:1 <b>(1)of</b>	0.91:1

[8]

<b>Page 6</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge O Level – May/June 2015</b>	<b>7110</b>	<b>22</b>

**(c) Own figures applied where appropriate**

Profitability

Gross profit percentage has decreased **(1)**

ROCE has increased **(1)**

Selling prices may have been cut to increase sales **(1)**

Expenses have been controlled or reduced **(1)**

**Max (1) × 3**

[3]

Liquidity

Quick ratio has deteriorated to a dangerous level **(1)**

Inventory levels increased substantially in the year **(1)**

Bank overdraft so no cash to pay trade payables **(1)**

Possible overtrading **(1)**

Risk of bankruptcy because trade payables cannot be paid **(1)**

**Max (1) × 3**

[3]

**[Total: 20]**

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge O Level – May/June 2015	7110	22

5 (a) Farah and Hana  
Income Statement and Appropriation Account for the year ended 30 April 2015

	\$	\$	
Revenue		190 000	
Returns inwards		<u>(8 600)</u>	
		181 400	<b>(1)</b>
Inventory 1 May 2014	15 600		
Purchases	<u>81 250</u>		
	96 850		
Inventory 30 April 2015	<u>(13 650)</u>		
Cost of sales		<u>(83 200)</u>	<b>(1)</b>
Gross profit		98 200	<b>(1)of</b>
Less expenses:			
Other operating expenses	12 000		<b>(1)</b>
Advertising (11 000 – 800)	10 200		<b>(1)</b>
Wages and salaries	31 450		<b>(1)</b>
Delivery vehicle expenses	14 900		<b>(1)</b>
Heat and light (9 750 + 150)	9 900		<b>(1)</b>
Depreciation: Premises	1 200		<b>(1)</b>
Delivery vehicles	4 000		<b>(1)</b>
Office fixtures	1 500		<b>(1)</b>
Increase in Provision for doubtful debts	<u>250</u>		<b>(1)</b>
		<u>(85 400)</u>	
Profit for the year		12 800	
Add			
Interest on drawings:			
Farah	300		<b>(1)</b>
Hana	<u>300</u>		<b>(1)</b>
		<u>600</u>	
		13 400	
Interest on capital:			
Farah	(2 000)		<b>(1)</b>
Hana	<u>(1 200)</u>		<b>(1)</b>
		<u>(3 200)</u>	
		10 200	
Share of profit:			
Farah		5 100	<b>(1)of</b>
Hana		<u>5 100</u>	<b>(1)of</b>
		<u>10 200</u>	<b>(1)</b>

(b) Current accounts

	Farah \$	Hana \$		Farah \$	Hana \$	
Drawings	6 000	6 000	<b>(1)</b>	3 250	1 850	<b>(1)</b>
Int on drawings	300	300	<b>(1)</b>	2 000	1 200	<b>(1)of</b>
Balance c/d	<u>4 050</u>	<u>1 850</u>	<b>(1)</b>	<u>5 100</u>	<u>5 100</u>	<b>(1)of</b>
	<u>10 350</u>	<u>8 150</u>		<u>10 350</u>	<u>8 150</u>	
			Balance b/d	4 050	1 850	<b>(1)of</b> [7]

<b>Page 8</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge O Level – May/June 2015</b>	<b>7110</b>	<b>22</b>

(c) Statement of Financial Position at 30 April 2015

Total assets	Cost	Depreciation to date	Book value
Non-current assets	\$	\$	\$
Premises	60 000	4 800	55 200 (1)of
Delivery vehicles	30 000	14 000	16 000 (1)of
Office fixtures	15 000	12 500	2 500 (1)of
	<u>105 000</u>	<u>31 300</u>	<u>73 700</u> (1)
Current assets			
Inventory			13 650 (1)
Trade receivables		18 750 (1)	
Less Provision for doubtful debts		<u>(750) (1)</u>	
			18 000
Other receivables			<u>800</u> (1)
			<u>32 450</u>
Total assets			<u>106 150</u>
Capital and liabilities			\$
Capital accounts:			
Farah		50 000	
Hana		<u>30 000</u>	
			80 000 (1)
Current accounts:			
Farah		4 050	
Hana		<u>1 850</u>	
			<u>5 900</u> (1)of
			<u>85 900</u>
Current liabilities			
Trade payables (7 900 – 550)			7 350 (2)
Other payables			150 (1)
Bank overdraft (12 200 + 550)			<u>12 750</u> (2)
			<u>20 250</u>
Total liabilities			<u>106 150</u>

(Alternative presentation is acceptable)

[15]

[Total: 40]