

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge Ordinary Level

## **MARK SCHEME for the October/November 2014 series**

### **7110 PRINCIPLES OF ACCOUNTS**

**7110/22**

Paper 2 (Structured), maximum raw mark 120

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<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge O Level – October/November 2014</b>	<b>7110</b>	<b>22</b>

1 (a) (i)

Assets:	\$	Liabilities:	\$
Inventory	1 950	Trade payable	400
Bank	550	5% Bank loan	2 500
Fixtures and fittings	<u>1 500</u>	Owner's capital	<u>1 100 (1)</u>
	<u>4 000</u>		<u>4 000</u>

[1]

(ii)

	\$
Owner's capital	1 100
5% Bank loan	<u>2 500</u>
Capital employed	<u>3 600 (1of)</u>

[1]

(b)

		Midland Telecomes account			
		\$		\$	
31 May	Bank	400 (1)	1 May	Balance b/d	400 (1)
15 July	Bank	1 176 (1)	26 June	Telephone expenses a/c	1 200 (1)
	Discount received	<u>24 (1)</u>			
		<u>1 600</u>			<u>1 600</u>

[5]

		Telephone expenses account			
		\$		\$	
26 June	Midland Telecoms	1 200 (1)	31 July	Income statement	(1) 1 330 (1)
31 July	Balance c/d	<u>130</u>			
		<u>1 330</u>			<u>1 330</u>
			1 August	Balance b/d	130 (1)

[4]

(c) Accruals (matching) (1)

To match the telephone expense incurred (1) in the quarter to the income achieved (1) in the quarter. [3]

(d)

	Source document	Book of prime entry
5 July	<i>Purchase invoice</i>	<i>Purchases journal</i>
10 July	Credit note (1)	Sales returns journal (1)
20 July	Pay slip/wages sheet (1)	Cash Book (1)
25 July	Sales invoice (1)	General journal (1)

[6]

**[Total: 20]**

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

[2]

(b)

For the year ended	Straight line method \$	Reducing balance method \$
30 September 2015	2 800 (1)	4 800 (1)
30 September 2016	2 800 (1)	2 400 (1)
30 September 2017	2 800 (1)	1 200 (1)

[6]

(c) There is an equal charge for depreciation in each year for equal benefit received. (1)

[1]

(d) Motor vehicles depreciate more in the early years (1)  
OR the net book value will be nearer to the market value (1)

[1]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge O Level – October/November 2014</b>	<b>7110</b>	<b>22</b>

**(e) Matching/accruals (1)**

The non-current asset will give benefit to the business for many years and therefore an appropriate amount of depreciation should be matched **(1)** each year over the life of the asset. **(1)**

**Consistency (1)**

A chosen method should be consistently applied. **(1)** Changing the method could distort profit calculations. **(1)** [6]

**(f) 1 Capital (1)**

2 Revenue **(1)**

3 Capital **(1)**

4 Revenue **(1)** [4]

**[Total: 20]**

**3 (a) Detailed recording of all transactions**

Matters are not forgotten or overlooked

Can be used to check accuracy

Can be used to prepare financial statements

**(1) × 2 points** [2]

**(b)**

Purchases	\$	
Payments to credit suppliers	17 800	<b>(1)</b>
Trade payables at the end	<u>1 430</u>	<b>(1)</b>
	19 230	
Trade payables at start	<u>1 150</u>	<b>(1)</b>
	18 080	
Card purchases	<u>950</u>	<b>(1)</b>
	19 030	<b>(1)</b>

[5]

**(c)**

Revenue	\$	
Takings banked	43 200	<b>(1)</b>
Cash sales:		
Staff wages	14 900	
Drawings	8 000	<b>(1)all three</b>
Cash purchases	<u>950</u>	
	67 050	<b>(1)</b>

[3]

Page 5	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

(d)

Basir's Korner Café			
Income Statement for the year ended 30 September 2014			
	\$	\$	
Revenue (sales)		67 050	(1)
Less			
Opening inventory	350		
Purchases	19 030		
	<u>19 380</u>		
Less Closing inventory	<u>720</u>		
Cost of sales		<u>18 660</u>	(1)
Gross profit		48 390	(1of)
Less expenses			
Rent (5500 + 500 (1) + 1000 (1))	7 000		
Operating expenses	13 600		(1)
Depreciation –			
Fixtures and fittings (2250 + 450 (1) – 2200)	500		(1of)
Wages	14 900		(1)
Interest on loan (5000 × 7%)	<u>350</u>		(1)
		<u>36 350</u>	
Profit for the year		<u><u>12 040</u></u>	

[10]

[Total: 20]

4 (a)

	Workings	Answer
cost of sales	$(15\,500 + 24\,500 \text{ (1)})/2 \times 8 \text{ (1)}$	\$160 000 (1)
purchases	$160\,000 \text{ (1of)} + 24\,500 - 15\,500 \text{ (1)}$	\$169 000 (1of)
percentage gross profit to sales	$\frac{40\,000 \text{ (1of)} \times 100}{200\,000 \text{ (1)}}$	20% (1of)
expenses	$13\% \text{ (1)} \times 200\,000 \text{ (1)}$	\$26 000 (1)
net profit	$200\,000 \times 7\% \text{ (1)}$	\$14 000 (1)

[14]

(b)

Adjustment	Effect on inventory value		Value \$
	increase	decrease	
1	✓		50
2		✓ (1)	100 (1)
3		✓ (1)	400 (1)
4		✓ (1)	180 (1)

[6]

[Total: 20]

Page 7	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

5 (a)

Darius and Edgar			
Income Statement and Appropriation for the year ended 31 July 2014			
	\$	\$	
Revenue		256 000	
Less Returns		<u>5 200</u>	
		250 800	(1)
Opening inventory	25 800		
Plus Purchases	<u>148 300</u>		
	174 100		
Closing inventory	<u>34 100</u>		
Cost of sales		<u>(140 000)</u>	(1)
Gross profit		110 800	(1of)
Rent receivable (3 500 + 1 500)	5 000		(1)
Decrease in provision for doubtful debts	<u>500</u>		(1)
		<u>5 500</u>	
		116 300	
Less expenses:			
Rent	12 000		(1)
Wages and salaries	28 950		(1)
Heat and light	7 600		(1)
Sundry expenses (6 350 – 1 800)	4 550		(1)
Motor vehicle expenses	11 000		(1)
Bank loan interest (1 600 + 1 600)	3 200		(1)
Depreciation			
Leasehold buildings	3 000		(2)
Motor vehicles	9 000		(2)
Fixtures	2 500		(2)
Bad debts	<u>4 500</u>		(1)
		<u>(86 300)</u>	
Profit for the year		30 000	
Interest on capital:			
Darius	2 000		(1)
Edgar	<u>1 500</u>		(1)
		<u>(3 500)</u>	
		26 500	
Salary – Edgar		<u>(12 000)</u>	(1)
		14 500	
Share of profit:			
Darius	8 700		(1of)
Edgar	<u>5 800</u>		(1of)
		<u>14 500</u>	

[23]

Page 8	Mark Scheme	Syllabus	Paper
	Cambridge O Level – October/November 2014	7110	22

(b)

Current Accounts							
Details	Darius	Edgar	Details	Darius	Edgar		
	\$	\$		\$	\$		
Drawings (1)	12 000	12 000	Balance b/d (1)	500	900		
Balance c/d		8 200	Interest on capital (1of)	2 000	1 500		
			Share of profit (1of)	8 700	5 800		
			Salary		12 000		
			Balance c/d	800			
	<u>12 000</u>	<u>20 000</u>		<u>12 000</u>	<u>20 000</u>		
Balance b/d	800		Balance b/d		8 200		

[4]

(c)

Darius and Edgar  
Statement of Financial Position at 31 July 2014

Non-current assets

	Cost	Accumulated depreciation	Book value
	\$	\$	\$
Leasehold buildings	75 000	21 000	54 000(1of)
Motor vehicles	40 000	19 000	21 000(1of)
Fixtures	25 000	17 500	7 500(1of)
	<u>140 000</u>	<u>57 500</u>	82 500

Current assets

Inventory	34 100 (1)		
Trade receivables	35 000 (1)		
Less provision for doubtful debts	<u>(1 400) (1of)</u>		
	33 600		
Other receivables (1500 (1) + 1800 (1))	3 300		
Bank	<u>31 400</u>		
	102 400		
less			
<u>Current liabilities</u>			
Trade payables	55 900		
8% Bank loan	40 000 (1)		
Other payables	<u>1 600 (1)</u>		
	(97 500)		
Net current assets			<u>4 900(1of)</u>
			<u>87 400</u>

	\$	\$
Capital accounts:		
Darius	40 000	
Edgar	<u>40 000</u>	80 000(1)
Current accounts:		
Darius	800Dr	
Edgar	<u>8 200Cr</u>	<u>7 400(1of)</u>
		<u>87 400</u>

[13]

[Total: 40]