CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the May/June 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/22 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 **(a)** **(i)** Book-keeping refers to the maintaining of all double entry records/recording tra **(1)**
Accounting refers to the preparation (and interpretation) of financial statements **(1)**

(ii) Accounting entity means that the business is treated as being completely separate **(1)** from the owner of the business **(1)**. [2]

(b) Hajar account

		$				$	
April 1	Balance b/d	2100		April 7	Returns inwards	192	**(1)**
5	Sales	1600	**(1)**	18	Bank/cash	2058	**(1)**
					Discount allowed	42	**(1)**
				30	Balance c/d	1408	
		3700				3700	
May 1	Balance b/d	1408	**(1) of**				

[5]

(c)

Date		Document
5 April	Fashran sold goods on credit to Hajar	Sales invoice **(1)**
7 April	Hajar returned goods to Fashran purchased on the 5 April	Credit note **(1)**
30 April	Fashran issues a summary of Hajar's account for the month of April	Statement of account **(1)**

[3]

(d) Sales/debtors/trade receivables ledger **(1)** [1]

(e)

Fashran
Trial Balance at 30 April 2014

	Dr	Cr
	$	$
Trade payables		6450
Trade receivables	9230	
Revenue		68400
Purchases	29800	
Inventory 1 May 2013	5100	
Bank overdraft		830
Expenses	22350	
Non-current assets	24000	
Provision for depreciation – Non-current assets		7800
Capital		7000
	90 480	90480

(1) for any two correct items [5]

[Total: 18]

2 (a)

Sales ledger control account

		$				$	
April 1	Balance b/d	20450		April 1	Balance b/d	600	
30	Credit sales	50500	**(1)**	30	Sales returns	700	**(1)**
	Refund	750	**(1)**		Receipts	48600	**(1)**
					Discount allowed	1200	**(1)**
					Bad debt	800	**(1)**
	Balance c/d	180			Balance c/d	19980	
		71880				71880	
May 1	Balance b/d	19 980	**(1of)** no alien	May 1	Balance b/d	180	[7]

(b) Journal

	Dr	Cr	
	$	$	
D Kay	450		**(1)**
D Moy		450	**(1)**
G Fallen	180		**(1)**
Purchases		180	**(1)**
F Tay	90		**(1)**
Discount received		90	**(1)**
Fixture and fittings repairs	800		**(1)**
Fixtures and fittings		800	**(1)**

[8]

(c)

		Type of error
1	A cheque received from D Moy, $450, had been posted to the account of D Kay.	*Commission*
2	An invoice for goods received from G Fallen, costing $790, had been recorded in the purchases journal as $970.	Original entry **(1)**
3	Discount received, $45, had been debited to the discount received account and credited to F Tay.	Reversal **(1)**
4	Repairs to fixtures and fittings, $800, had been recorded in the fixtures and fittings account.	Principle **(1)**

[3]

(d) Used when the trial balance fails to agree **(1)**
Used to balance the trial balance **(1)**
To complete the double entry when the trial balance fails to agree **(1)**
To enable draft financial statements to be prepared **(1)**
To **assis**t in the correction of errors **(1)**

[max 2]

[Total: 20]

3 **(a)** **(i)** The expense can be directly linked or traced to the product/unit/goods manufactured.

(ii) Raw materials
Factory wages
Royalties
(1) × 2 points [2]

(b) Cadmore Limited
Manufacturing Account for the month ended 30 April 2014

	$	$	
Opening inventory of raw materials	10 830		
Purchases of raw materials	80 670		
	91 500		
Less Closing inventory of raw materials	12 400		
Raw materials consumed		79 100	**(1) w + f**
Factory wages		60 690	**(1)**
Royalties		7 500	**(1)**
Prime cost **(1)**		147 290	**(1) of no alien**
Plus Factory overheads:			
Depreciation on machinery	7 000		
Rent of factory	2 000		**(1)**
Factory management salaries	10 750		**(1)**
Insurance	1 000		**(1)**
General expenses	5 000		**(1)**
		25 750	
		173 040	
Work in progress 1 April	12 700		
Less Work in progress 30 April	(9 980)		
		2 720	**(1)**
Production cost		175 760	**(1of) w + f no alien**

[11]

(c)

Net pay:	$	
160 hours × $8 =	1280	
40 hours × $12 =	480	
20 hours × $16 =	320	
	2080	**(1)**
Less Tax and social security	240	**(1)**
Net pay for April	1840	**(1)**

[3]

(d)

	$	
Employee contribution	240	**(1)**
Employer contribution	208	**(1of)**
Total contribution	448	**(1)of no alien**

[3]

[Total: 20]

4 (a)

	$	
Opening inventory	20 000	
Purchases	122 000	
	142 000	
Closing inventory	16 000	
Cost of sales	126 000	**(1)**

$$\frac{42\,000\ \textbf{(1)}}{168\,000\ \textbf{(1)}} \times 100 = 25\%\ \textbf{(1)}$$

$$\frac{126\,000\ \textbf{(1)}}{(20\,000 + 16\,000)/2\ \textbf{(1)}} = 7 \text{ times}\ \textbf{(1)}$$

$$\frac{16\,000 + 24\,500 + 1500\ \textbf{(1)}}{35\,000\ \textbf{(1)}} = 1.2{:}1\ \textbf{(1)}$$ [10]

(b) Najla has controlled the inventory well/better/improved/efficiently
The closing inventory is lower than the opening inventory
Najla is selling goods faster
(1) × **2 points**

The ability to pay trade payables is decreasing **(1)**, but has sufficient current assets to cover trade payables **(1)**
Trade payables considerably higher than 'quick' assets/trade receivables
Little cash in the bank
(1) × **2 points** [4]

(c) Higher/increased selling prices
Cheaper purchases **(1)** lower cost of sales **(1)** bulk buying **(1)** more trade discount **(1)**
(1) × **2 points**

[max 2]

(d)

Proposals	Working capital		Amount of change ($)
	increase	decrease	
1		✓	*$500*
2	✓ **(1)**		$3000 **(1)**
3		✓ **(1)**	$200 **(1)**
4	✓ **(1)**		$2000 **(1)**

[6]

[Total: 22]

5 (a)

Franco
Income Statement for the year ended 31 January 2014

	$	$	
Revenue		362 500	
Returns		7 200	
		355 300	**(1)**
Inventory 1 February 2013	17 970		**(1)**
Purchases	172 400		**(1)**
	190 370		
Returns	(8 800)		**(1)**
	181 570		
Inventory 31 January 2014	(15 600)		**(1)**
Cost of sales		(165 970)	**(1) + w**
Gross profit		189 330	**(1)of + w no alien**
Add Other income			
Commission received	11 400		**(1)**
Profit on disposal	500		**(1)**
		11 900	
		201 230	
Less Expenses			
Distribution expenses	16 300		**(1)**
Insurance	5 900		**(1)**
Light and heat	7 850		**(1)**
Wages and salaries (69 500 – 15 000)	54 500		**(1)**
Marketing expenses (31 000 – 6 750)	24 250		**(1)**
General expenses	9 200		**(1)**
Loan interest	8 000		**(1)**
Depreciation:			
Buildings	2 000		**(2)**
Fixtures	4 500		**(1)**
Computer equipment	11 000		**(2)**
Bad debts	3 000		**(1)**
Increase in provision for doubtful debts	700		**(2)**
		(147 200)	
Profit for the year		54 030	

[24]

Statement of Financial Position at 31 January 2014

	$ Cost		$ Accumulated Depreciation	$ NBV		
Non-current assets						
Land and buildings	150 000		22 000	128 000	**(1of)**	
Fixtures and fittings	30 000		18 000	12 000	**(1of)**	
Computer equipment	78 000		45 000	33 000	**(1of)**	
	258 000		85 000	173 000	**(1 of)**	
Current assets						
Inventory			15 600		**(1)**	
Trade receivables	42 000	**(1)**				
Less Provision for doubtful debts	2 100					
			39 900		**(1of)**	
Other receivables			6 750		**(1)**	
Bank (17 430 – 8 000)			9 430		**(1)**	
			71 680			
Less						
Current liabilities						
Trade payables	37 650				**(1)**	
Other payables	8 000				**(1)of**	
			45 650			
Net current assets				26 030		
				199 030		
Non-current liabilities **(1)**						
8% Bank loan				(100 000)	**(1)**	
				99 030		
Capital				80 000		
Profit for the year				54 030	**(1of)**	
				134 030		
Drawings (20 000 **(1)** + 15 000 **(1)**)				(35 000)		
				99 030		[16]

[Total: 40]