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

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)

Date	Transaction	Source document	Book of prime entry	Effect o... owner's cap...
April 5	Paid Putil half of his outstanding balance on 1 April by cheque, less 2% cash discount	*Cheque counterfoil*	*Cash book*	*+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	1980					
		3640				3640	
				May 1	Balance b/d	1980	**(1)of**

[5]

(c) Wages account

		$				$	
April 1	Balance b/d	1750		April 30	Income statement	2050	**(1)**
19	Cash	450	**(1)**		Balance c/d	150	
		2200				2200	
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

			$					$	
2013					2014				
April	1	Balance b/d	16 000		March	31	Balance c/d	16 000	**(1)**
			16 000					16 000	
2014					2015				
April	1	Balance b/d	16 000	**(1)**					
		Bank	9 000	**(1)**	March	31	Balance c/d	25 000	
			25 000					25 000	
2015									
April	1	Balance b/d	25 000	**1OF**					

[4]

Motor vehicle provision for depreciation account

			$				$	
				2013				
				April	1	Balance b/d	4 000	**(1)**
2014				2014				
March	31	Balance c/d	7 000	March	31	Income statement	3 000	**(1)of**
			7 000				7 000	
				April	1	Balance b/d	7 000	**(1)of**
2015				2015				
March	31	Balance c/d	11 500	March	31	Income statement	4 500	**(1)of**
			11 500				11 500	
				April	1	Balance b/d	11 500	**(1)OF**

[5]

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

[2]

[Total: 20]

3 **(a)** Subscriptions account

2014		$		2015		$	
1 April	Balance b/d	530		31 March	Receipts and payments	326[illegible]	
2015					Bad debts	250	([illegible]
31 March	Income and expenditure	3280	**(1)of**		Balance c/d	750	
	Balance c/d	450					
		4260				4260	
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	(750)			
			830	**(1)**
Donations			350	**(1)**
			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	250	**(1)**		
			6160	
Deficit			(1700)	

[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	50	**(1)**
	800	
Total assets	5200	
Total liabilities		
Accumulated fund		
Opening balance	4500	
Deficit for the year	(1700)	
	2800	**(1)of**
Current liabilities		
Subscriptions in advance	450	**(1)**
Other payables	20	**(1)**
Bank overdraft	1930	**(1)**
	2400	
Total liabilities	5200	

[7]

[Total: 20]

4 (a) (i) Revenue: $125\,000 \times \frac{120}{100}$ **(1)** $= 150\,000$ **(1)** [2]

(ii) Purchases: 125 000 + 35 000 **(1)** – 15 000 = 145 000 **(1)** [2]

(iii) Expenses: Gross profit 25 000 – (150 000 **of** × $\frac{5}{100}$) **(1)** = 17 500 **(1)of** [2]

(b)

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

[8]

(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]

5 (a)

Farah and Hana
Income Statement and Appropriation Account for the year ended 30 April 2015

	$		$	
Revenue			190 000	
Returns inwards			(8 600)	
			181 400	**(1)**
Inventory 1 May 2014	15 600			
Purchases	81 250			
	96 850			
Inventory 30 April 2015	(13 650)			
Cost of sales			(83 200)	**(1)**
Gross profit			98 200	**(1)of**
Less expenses:				
Other operating expenses	12 000	**(1)**		
Advertising (11 000 – 800)	10 200	**(1)**		
Wages and salaries	31 450	**(1)**		
Delivery vehicle expenses	14 900	**(1)**		
Heat and light (9 750 + 150)	9 900	**(1)**		
Depreciation: Premises	1 200	**(1)**		
Delivery vehicles	4 000	**(1)**		
Office fixtures	1 500	**(1)**		
Increase in Provision for doubtful debts	250	**(1)**		
			(85 400)	
Profit for the year			12 800	
Add				
Interest on drawings:				
Farah	300	**(1)**		
Hana	300	**(1)**		
			600	
			13 400	
Interest on capital:				
Farah	(2 000)	**(1)**		
Hana	(1 200)	**(1)**		
			(3 200)	
			10 200	
Share of profit:				
Farah			5 100	**(1)of**
Hana			5 100	**(1)of**
			10 200	[18]

(b)

Current accounts

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

(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**
	105 000	31 300	73 700	**(1)**
Current assets				
Inventory			13 650	**(1)**
Trade receivables		18 750 **(1)**		
Less Provision for doubtful debts		(750) **(1)**		
			18 000	
Other receivables			800	**(1)**
			32 450	
Total assets			106 150	
Capital and liabilities			$	
Capital accounts:				
Farah		50 000		
Hana		30 000		
			80 000	**(1)**
Current accounts:				
Farah		4 050		
Hana		1 850		
			5 900	**(1)of**
			85 900	
Current liabilities				
Trade payables (7 900 – 550)			7 350	**(2)**
Other payables			150	**(1)**
Bank overdraft (12 200 + 550)			12 750	**(2)**
			20 250	
Total liabilities			106 150	

(Alternative presentation is acceptable) [15]

[Total: 40]