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**PRINCIPLES OF ACCOUNTS**

**7110/23**

Paper 2

**May/June 2018**

MARK SCHEME

Maximum Mark: 120

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**Published**

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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the May/June 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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This document consists of **14** printed pages.

**PUBLISHED****Generic Marking Principles**

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

**GENERIC MARKING PRINCIPLE 1:**

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

**GENERIC MARKING PRINCIPLE 2:**

Marks awarded are always **whole marks** (not half marks, or other fractions).

**GENERIC MARKING PRINCIPLE 3:**

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

**GENERIC MARKING PRINCIPLE 4:**

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

**GENERIC MARKING PRINCIPLE 5:**

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

**GENERIC MARKING PRINCIPLE 6:**

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks																																				
1(a)	(i) Sales ledger/Trade receivables ledger <b>(1)</b> (ii) Sales invoice <b>(1)</b> (iii) Cheque /Letter or email (if refund made electronically) <b>(1)</b> (iv) Sales returns journal <b>(1)</b> (v) Cash discount <b>(1)</b> (vi) Current assets <b>(1)</b>	<b>6</b>																																				
1(b)	$\frac{\$6 \times 100}{\$150} = 4\% \text{ (1)}$	<b>2</b>																																				
1(c)(i)	<p style="text-align: center;">Drawings account</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;">Date</th> <th style="width: 30%;">Details</th> <th style="width: 10%;">\$</th> <th style="width: 15%;">Date</th> <th style="width: 30%;">Details</th> <th style="width: 10%;">\$</th> </tr> </thead> <tbody> <tr> <td>April 1</td> <td>Balance b/d</td> <td style="text-align: right;">6400 <b>(1)</b></td> <td>April 30</td> <td>Capital</td> <td style="text-align: right;">7050 <b>(1)OF</b></td> </tr> <tr> <td>9</td> <td>Bank</td> <td style="text-align: right;">500 <b>(1)</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>15</td> <td>Insurance/Bank</td> <td style="text-align: right;">150 <b>(1)</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">7050</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">7050</td> </tr> </tbody> </table>	Date	Details	\$	Date	Details	\$	April 1	Balance b/d	6400 <b>(1)</b>	April 30	Capital	7050 <b>(1)OF</b>	9	Bank	500 <b>(1)</b>				15	Insurance/Bank	150 <b>(1)</b>						7050			7050	<b>5</b>						
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2(b)	Physical deterioration/Wear and tear <b>(1)</b> Economic reasons/Obsolete <b>(1)</b>  <b>Accept other valid points.</b>	<b>2</b>																																								
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3(d)	Can establish the profit Easier to make decisions Can establish income or expenditure on an activity Can refer to trade receivable or trade payable account for details  Any valid point <b>(1)</b> × 3 points <b>Accept other valid points.</b>	<b>3</b>
3(e)	(i) Income tax Social security/national insurance <b>(1)</b> For valid statutory deduction (ii) Pension contribution Subscription to trade union or a social club Donation to charity <b>(1)</b> For valid non-statutory deduction	<b>2</b>



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3(f)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> <td style="width: 10%;"></td> </tr> <tr> <td>(i) Gross pay</td> <td>160 hours × \$6</td> <td style="text-align: right;">960</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>20 hours × \$9</td> <td style="text-align: right;">180</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td>5 hours × \$12</td> <td style="text-align: right;">60</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">1 200 (1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Less Deductions</td> <td></td> <td style="text-align: right;">220</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Net pay</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">980 (1)</td> <td></td> <td></td> <td></td> </tr> <tr> <td colspan="6" style="text-align: center;"> </td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">\$</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(ii) Gross pay</td> <td></td> <td style="text-align: right;">1 200</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Employer's contributions</td> <td></td> <td style="text-align: right;">150</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Total cost</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">1 350 (1)OF</td> <td></td> <td></td> <td></td> </tr> </table>			\$				(i) Gross pay	160 hours × \$6	960					20 hours × \$9	180					5 hours × \$12	60						1 200 (1)				Less Deductions		220				Net pay		980 (1)												\$				(ii) Gross pay		1 200				Employer's contributions		150				Total cost		1 350 (1)OF				<b>2</b>
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4(a)	1 Prudence/Matching/Accrual (1) 2 Historical cost (1) 3 Matching/accruals (1) 4 Consistency (1)	<b>4</b>
4(b)(i)	Gross profit 50 000 – 2000 (1) – 6000 (1) = 42 000 (1)OF	<b>3</b>
4(b)(ii)	Profit for the year 42 000 OF – (14 000 – 1800 + 700) (1) – 20 000 (1) = 9100 (1)OF	<b>3</b>

Question	Answer			Marks												
4(c)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%;"></th> <th style="width: 30%; text-align: center;">Workings</th> <th style="width: 20%; text-align: center;">31 March 2018</th> </tr> </thead> <tbody> <tr> <td>Gross profit/sales (Gross profit margin)</td> <td><math>\frac{42000}{120000} \text{ (1) of } \times 100 =</math></td> <td>35.00% <b>(1) OF</b></td> </tr> <tr> <td>Profit for the year/sales (Net profit margin)</td> <td><math>\frac{9100}{120000} \text{ (1) of } \times 100 =</math></td> <td>7.58% <b>(1) OF</b></td> </tr> <tr> <td>Percentage return on capital employed</td> <td><math>\frac{9100 \text{ of } \times 100}{(150000 + 80000)} \text{ (1) =}</math></td> <td>3.96% <b>(1) OF</b></td> </tr> </tbody> </table>				Workings	31 March 2018	Gross profit/sales (Gross profit margin)	$\frac{42000}{120000} \text{ (1) of } \times 100 =$	35.00% <b>(1) OF</b>	Profit for the year/sales (Net profit margin)	$\frac{9100}{120000} \text{ (1) of } \times 100 =$	7.58% <b>(1) OF</b>	Percentage return on capital employed	$\frac{9100 \text{ of } \times 100}{(150000 + 80000)} \text{ (1) =}$	3.96% <b>(1) OF</b>	<b>6</b>
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4(d)	<p>Gross profit/sales</p> <p>This has improved <b>(1)</b> which may be the result of increased prices, decreased cost of sales or change in sales mix. <b>(1)</b></p> <p>Profit for the year/sales</p> <p>This has deteriorated <b>(1)</b> which may be due to increased expenses. <b>(1)</b></p> <p>Percentage return on capital employed</p> <p>This has improved <b>(1)</b> because one of the bank loans is no longer long term which has reduced the capital employed. <b>(1)</b></p> <p>Minimum <b>(1)</b> for each ratio.</p> <p><b>Own figure rule applies.</b> <b>Accept other valid points.</b></p>			<b>Max 4</b>												

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**PUBLISHED**

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5(c)	<p style="text-align: center;">Athula and Bhulo Statement of Financial Position at 30 April 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Non-current assets</th> <th style="text-align: center;">Cost</th> <th style="text-align: center;">Accumulated depreciation</th> <th style="text-align: center;">Book value</th> <th></th> </tr> <tr> <td></td> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <td></td> </tr> </thead> <tbody> <tr> <td>Land and buildings</td> <td style="text-align: right;">150 000</td> <td style="text-align: right;">14 000</td> <td style="text-align: right;">136 000</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">60 000</td> <td style="text-align: right;">32 000</td> <td style="text-align: right;">28 000</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Office fixtures</td> <td style="text-align: right;">33 000 (1)</td> <td style="text-align: right;">20 300</td> <td style="text-align: right;">12 700</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>243 000</u></td> <td style="text-align: right; border-top: 1px solid black;"><u>66 300</u></td> <td style="text-align: right; border-top: 1px solid black;"><u>176 700</u></td> <td></td> </tr> <tr> <td colspan="5"><b>Current assets</b></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">51 000</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Trade receivables (42 000 – 4000)</td> <td style="text-align: right;">38 000</td> <td></td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Provision for doubtful debts</td> <td style="text-align: right;">(3 400)</td> <td></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">34 600</td> <td></td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Other receivables</td> <td></td> <td style="text-align: right;">1 400</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Bank (9 000 (1) – 6 000(1))</td> <td></td> <td style="text-align: right;">3 000</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>90 000</u></td> <td></td> <td></td> </tr> <tr> <td><b>Total Assets</b></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>266 700</u></td> <td></td> </tr> <tr> <td colspan="5"><b>Capital accounts</b></td> </tr> <tr> <td style="padding-left: 20px;">Athula</td> <td></td> <td style="text-align: right;">60 000</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Bhulo</td> <td></td> <td style="text-align: right;">40 000</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>100 000</u></td> <td></td> <td></td> </tr> <tr> <td colspan="5"><b>Current accounts:</b></td> </tr> <tr> <td style="padding-left: 20px;">Athula</td> <td></td> <td style="text-align: right;">4 140</td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Bhulo</td> <td></td> <td style="text-align: right;">6 840</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>10 980</u></td> <td></td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td colspan="5"><b>Non-current liabilities</b></td> </tr> <tr> <td>5% Loan from Athula (repayable 2020)</td> <td></td> <td style="text-align: right;">40 000</td> <td></td> <td></td> </tr> <tr> <td>8% loan (repayable 2024)</td> <td></td> <td style="text-align: right;">80 000</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;"><u>120 000</u></td> <td></td> <td style="text-align: right;">(1)</td> </tr> </tbody> </table>				Non-current assets	Cost	Accumulated depreciation	Book value			\$	\$	\$		Land and buildings	150 000	14 000	136 000	(1)OF	Equipment	60 000	32 000	28 000	(1)OF	Office fixtures	33 000 (1)	20 300	12 700	(1)OF		<u>243 000</u>	<u>66 300</u>	<u>176 700</u>		<b>Current assets</b>					Inventory		51 000		(1)	Trade receivables (42 000 – 4000)	38 000			(1)	Provision for doubtful debts	(3 400)						34 600		(1)OF	Other receivables		1 400		(1)	Bank (9 000 (1) – 6 000(1))		3 000					<u>90 000</u>			<b>Total Assets</b>			<u>266 700</u>		<b>Capital accounts</b>					Athula		60 000			Bhulo		40 000					<u>100 000</u>			<b>Current accounts:</b>					Athula		4 140			Bhulo		6 840					<u>10 980</u>		(1)OF	<b>Non-current liabilities</b>					5% Loan from Athula (repayable 2020)		40 000			8% loan (repayable 2024)		80 000					<u>120 000</u>		(1)	<b>15</b>
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