

**MARK SCHEME for the October/November 2013 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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|        |                                     |          |
|--------|-------------------------------------|----------|
| Page 2 | Mark Scheme                         | Syllabus |
|        | GCE O LEVEL – October/November 2013 | 7110     |

1 (a)

|       |               | General Journal |  |              |
|-------|---------------|-----------------|--|--------------|
|       |               | Dr              |  | Cr           |
|       |               | \$              |  | \$           |
| 2013  |               |                 |  |              |
| Jan 1 | Cash          | 350             |  |              |
|       | Bank          | 3 000           |  |              |
|       | Motor vehicle | 6 500           |  |              |
|       | Loan          |                 |  | 5 000        |
|       | Capital       |                 |  | 4 850        |
|       |               | <u>9 850</u>    |  | <u>9 850</u> |

**(2) (1 of)**

Assets and liabilities at start of business. (1)

Capital at this date

[3]

(b)

|        |                      | General Journal |     |        |
|--------|----------------------|-----------------|-----|--------|
|        |                      | Dr              |     | Cr     |
|        |                      | \$              |     | \$     |
| 2013   |                      |                 |     |        |
| Jan 28 | Disposal             | 6 500           | (1) |        |
|        | Motor vehicle        |                 |     | 6 500  |
|        | Aktar Allam          | 6 500           | (1) |        |
|        | Disposal             |                 |     | 6 500  |
| <hr/>  |                      |                 |     |        |
| Jan 28 | Motor vehicle        | 10 000          | (1) |        |
|        | Aston Motors Limited |                 |     | 10 000 |

[6]

- (c) Any two uses from:
- Correction of errors (1)
  - Year-end transfers/from expenses account to Income Statement (1)
  - Items which cannot be recorded in other journals (1)
  - Bad debts written off (1)
  - Depreciation of the year (1)
  - Record drawings for inventory (1)
- Max 2**

[2]

(d)

| 2013  | Transaction   | Source document                        | Book of prime entry      | Effect on profit  |
|-------|---|--|--------------------------|-------------------|
| Jan 4 | Goods sold, cost price \$400, on credit to Keen                             | <b>GIVEN</b>                           | <b>GIVEN</b>             | <b>GIVEN</b>      |
| Jan 5 | Keen returned goods, list price \$80  | Credit note (1)                        | Sale returns journal (1) | Decrease \$16 (1) |
| Jan 6 | Payment made to J Singh, \$323, in cash, after deducting \$17 cash discount | Receipt (1)                            | Cash book (1)            | Increase \$17 (1) |
| Jan 7 | Kulbir withdrew \$200 from the bank for personal use                        | Bank Statement/ Cheque counterfoil (1) | Cash book (1)            | No effect (1)     |

[9]

[Total: 20]

2 (a)

Sales Ledger Control account

|        |             |               |        |                  |               |
|--------|-------------|---------------|--------|------------------|---------------|
| 2013   |             | \$            | 2013   |                  | \$            |
| May 1  | Balance b/d | 5 687         | May 31 | Bank/cash        | 64 500 (1)    |
| May 31 | Sales       | 72 727 (1)    |        | Sales returns    | 8 242 (1)     |
|        | Bank        | 2 300 (1)     |        | Discount allowed | 1 894 (1)     |
|        |             |               |        | Bad debts        | 800 (1)       |
|        |             |               |        | Contra           | 300 (1)       |
|        |             |               |        | Balance c/d      | 4 978 (1)     |
|        |             | <u>80 714</u> |        |                  | <u>80 714</u> |
| Jun 1  | Balance b/d | 4 978 (1)of   |        |                  |               |

[9]

(b) Three benefits

- Check on arithmetical accuracy of double entry (2)
- Provides a basis for preparing financial statements (2)
- Find total trade receivables and/or find total trade payables (2)
- Prevents fraud/theft (2)
- Assess staff efficiency (2)
- Save time in producing trial balance and/or final accounts (2)
- Find missing figures in single entry (2)

**Max 6**

[6]

|               |  |                 |
|---------------|--|-----------------|
| <b>Page 4</b> | <b>Mark Scheme</b>                         | <b>Syllabus</b> |
|               | <b>GCE O LEVEL – October/November 2013</b> | <b>7110</b>     |

- (c) Two sources for sales ledger control account  
 Sales returns journal (1)  
 Sales journal (1)  
 Cash book (1)  
 General journal/Journal (1)  
 Balance from previous debtors sales ledger control account (1)  
**Max 2** [2]

(d) General Journal

|         |                          | Dr        | Cr        |
|---------|--------------------------|-----------|-----------|
|         |                          | \$        | \$        |
| 2013    |                          |           |           |
| June 26 | Bad debts                | 1 380 (1) |           |
|         | John Lee                 |           | 1 380 (1) |
|         | Bad debt written off (1) |           |           |

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[3]

- (e) Concept:  
 Prudence (1)
- Reasons:  
 All losses should be anticipated (2)  
 So that profits are not overstated (2)  
 So that trade receivables/current assets are not (2)  
 To prepare for debts that are likely to turn bad in the future (2)  
**Max 3**
- Concept:  
 Matching or accrual principle (1)
- Reason:  
 All known losses should be matched against revenue within the same period (2)  
 In order to calculate a true and fair profit figure for the year (2)  
**Max 3** [6]

[Total: 26]

|        |                                     |          |
|--------|-------------------------------------|----------|
| Page 5 | Mark Scheme                         | Syllabus |
|        | GCE O LEVEL – October/November 2013 | 7110     |

3 (a) Depreciation of kits and equipment

|                      |                |     |     |
|----------------------|----------------|-----|-----|
|                      | \$             |     |     |
| Balance 1 July 2012  | 5 000          | (1) |     |
| Purchases in year    | 4 656          | (1) |     |
| Value of items sold  | <u>(1 230)</u> | (1) |     |
|                      | 8 426          |     |     |
| Balance 30 June 2013 | <u>(8 104)</u> | (1) |     |
|                      | 322            | (1) | [5] |

(b) Loss on disposal

|                        |                |     |     |
|------------------------|----------------|-----|-----|
|                        | \$             |     |     |
| Value of sales in year | 1 230          | (1) |     |
| Less receipt from sale | <u>(1 008)</u> | (1) |     |
| Loss on sale           | 222            | (1) | [3] |

(c) Subscriptions account

|         |                        |               |         |             |              |
|---------|------------------------|---------------|---------|-------------|--------------|
| 2012    |                        |               | 2013    |             |              |
| July 1  | Balance b/d            | 240 (1)       | June 30 | Bank        | 7 200 (1)    |
| 2013    |                        |               |         |             |              |
| June 30 | Income and expenditure | 6 420 (1 o/f) |         |             |              |
|         | Balance c/d            | 540           |         |             |              |
|         |                        | <u>7 200</u>  |         |             | <u>7 200</u> |
|         |                        |               | July 1  | Balance b/d | 540 (1)      |

(d) Brown Lane Rovers Football Club  
Refreshments Income statement for the year ended 30 June 2013

|                                    |                  |               |                     |
|------------------------------------|------------------|---------------|---------------------|
|                                    | \$               | \$            | \$                  |
| Revenue                            |                  |               | 6 834               |
| Less                               |                  |               |                     |
| Inventory 1 July 2012              |                  | 250           |                     |
| Purchases                          | 2 078 (1)        |               |                     |
| Creditors 1 July 2012              | (1 034) (1)      |               |                     |
| Creditors 30 June 2013             | <u>1 140 (1)</u> | <u>2 184*</u> |                     |
|                                    |                  | 2 434         |                     |
| Inventory 30 June 2013             |                  | <u>(300)</u>  | <u>(2 134)</u>      |
| Profit for year                    |                  |               | <u>4 700 (1) of</u> |
| *Allow \$2078 + \$106 = \$2184 (3) |                  |               |                     |

[4]

|        |                                     |          |
|--------|-------------------------------------|----------|
| Page 6 | Mark Scheme                         | Syllabus |
|        | GCE O LEVEL – October/November 2013 | 7110     |

(e) Brown Lane Football Club  
Income and Expenditure account for the year ended 30 June 2013

|                                    | \$           | \$                   |
|------------------------------------|--------------|----------------------|
| Income                             |              |                      |
| Subscriptions                      |              | 6 420 (1) of         |
| Match day revenue                  |              | 1 233                |
| Profit on refreshments             |              | 4 700 (1) of         |
| Donation income                    |              | <u>940</u><br>13 293 |
| Less expenditure                   |              |                      |
| General running expenses           | 6 913 (1)    |                      |
| Groundsman's wages                 | 1 940 (1)    |                      |
| Depreciation                       | 322          |                      |
| Loss on disposal                   | 222          |                      |
| Match day expenses                 | <u>3 680</u> | (13 077)             |
| Surplus of income over expenditure |              | <u>216 (1) of</u>    |

[5]

(f) Must be one comment from each for 2 marks max.

Income and expenditure

Receipts and payments

Records revenue and not capital expenditure/income.

Makes no distinction between capital and revenue income/expenditure.

Similar to income statement.

Similar to cash book.

Applies matching concept.

Record when cash is paid/spent.

Shows a surplus/deficit.

May have opening/closing balances.

Includes depreciation of non-current assets.

Record purchase or sale of non-current assets.

[2]

[Total: 23]

|               |  |                 |
|---------------|--|-----------------|
| <b>Page 7</b> | <b>Mark Scheme</b>                         | <b>Syllabus</b> |
|               | <b>GCE O LEVEL – October/November 2013</b> | <b>7110</b>     |

- 4 (a) Gross profit margin = 25% (1)  
(\$75 000 ÷ \$300 000 × 100)
- Net profit margin = 9.33% (1)  
(\$27 990 ÷ 300 000 × 100)
- Return on capital employed = 11.66% (1)  
(\$27 990 ÷ 240 000 × 100)

[3]

**(b) Net profit trend (accept own figures comments from part (a))**

Three-year trend has fallen/deteriorated (1)

Gross profit margin has remained constant (1)

Gross profit has increased (1)

Sales had increased (1)

Net profit has increased (1)

Net profit margin has fallen (1) despite an increase in sales (1)

Percentage of expenses to sales has increased (1)

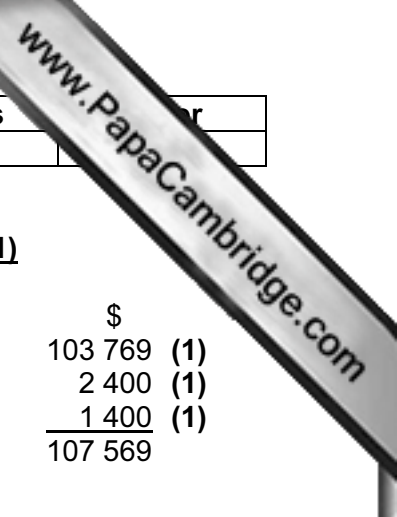
Expenses have increased at a faster rate than sales (1)

Return on capital employed has decreased (1) of less than 1% / by a small amount (1)

**Max 8**

[8]

**[Total: 11]**



5 (a)

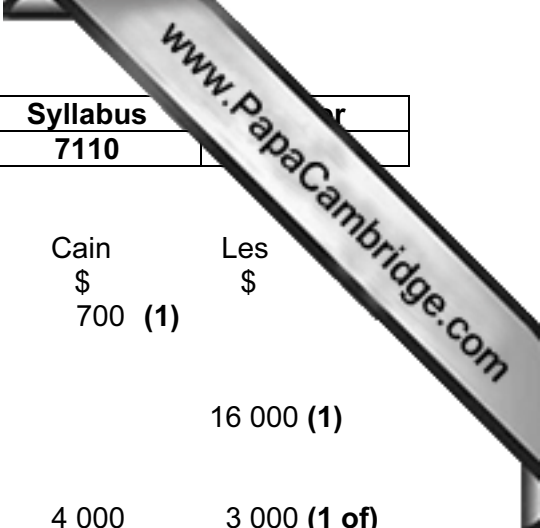
Cain and Les

Income statement for the year ended 30 September 2013 (1)

|                                      |                     |                   |                  |
|--------------------------------------|---------------------|-------------------|------------------|
|                                      |                     | \$                | \$               |
| Revenue                              |                     |                   | 103 769 (1)      |
| Commission received                  |                     |                   | 2 400 (1)        |
| Discount received                    |                     |                   | <u>1 400 (1)</u> |
|                                      |                     |                   | 107 569          |
| Less expenses                        |                     |                   |                  |
| Staff salaries                       | 14 170 (1)          |                   |                  |
| General expenses (23 460 – 1010)     | 22 450 (1)          |                   |                  |
| Heat and light expenses (4760 + 150) | 4 910 (1)           |                   |                  |
| Communication expenses (7680 + 2400) | 10 080 (1)          |                   |                  |
| Motor vehicle expenses (3650 + 2000) | 5 650 (1)           |                   |                  |
| Discounts allowed                    | 3 400 (1)           |                   |                  |
| Bank loan interest (3000 + 200)      | 3 200 (1)           |                   |                  |
| Bank charges                         | 123 (1)             |                   |                  |
| Provision for doubtful debts         | 16 (1)              |                   |                  |
| Depreciation:                        |                     |                   |                  |
| Premises                             | 7 080 (1)           |                   |                  |
| Office equipment                     | 7 200 (1)           |                   |                  |
| Motor vehicles                       | <u>2 560 (1)</u>    |                   | (80 839)         |
| Profit for the year                  |                     |                   | 26 730           |
| Add                                  |                     |                   |                  |
| Interest in drawings: Cain           | 480                 |                   |                  |
| Les                                  | 600 (1 both)        |                   | <u>1 080</u>     |
|                                      |                     |                   | 27 810           |
| Interest on capital: Cain            | 4 000               |                   |                  |
| Les                                  | 3 000 (1 both)      |                   | 7 000            |
| Salary                               | Les                 | <u>16 000 (1)</u> | (23 000)         |
|                                      |                     |                   | 4 810            |
| Share of profit: Cain                | 2 886} (1 of        |                   |                  |
| Les                                  | <u>1 924} both)</u> |                   | (4 810)          |

[20]





(b)

Current accounts

|                      | Cain<br>\$    | Les<br>\$     |                     | Cain<br>\$    | Les<br>\$     |
|----------------------|---------------|---------------|---------------------|---------------|---------------|
| Balance b/d          |               | 15 500 (1)    | Balance b/d         | 700 (1)       |               |
| Interest on drawings | 480           | 600 (1 of)    | Salary              |               | 16 000 (1)    |
| Drawings             | 12 000        | 15 000 (1)    | Interest on capital | 4 000         | 3 000 (1 of)  |
|                      |               |               | Share of profit     | 2 886         | 1 924 (1 of)  |
|                      |               |               | Balance c/d         | 4 894         | 10 176        |
|                      | <u>12 480</u> | <u>31 100</u> |                     | <u>12 480</u> | <u>31 100</u> |
| Balance b/d          | 4 894         | 10 176        |                     |               |               |

[7]

(c) Statement of Financial Position at 30 September 2013

|   | Cost           | Accumulated Depreciation | Net Book Value       |
|---|----------------|--------------------------|----------------------|
|   | \$             | \$                       | \$                   |
| <u>Non-current assets</u>               |                |                          |                      |
| Premises                                | 118 000        | 14 160                   | 103 840 (1) of       |
| Office equipment                        | 60 000         | 28 800                   | 31 200 (1) of        |
| Motor vehicles                          | <u>20 000</u>  | <u>9 760</u>             | <u>10 240</u> (1) of |
|   | <u>198 000</u> | <u>52 720</u>            | <u>145 280</u>       |
| <u>Current assets</u>                   |                |                          |                      |
| Trade receivables                       | 10 720         |                          |                      |
| Provision for doubtful debts            | <u>(536)</u>   | 10 184 (1)               |                      |
| Other receivables                       |                | 1 010 (1)                |                      |
| Bank (\$20 889 – bank charges \$123)    |                | <u>20 766</u> (1)        |                      |
|   |                | 31 960                   |                      |
| <u>Current liabilities</u>              |                |                          |                      |
| Trade payables                          | 1 960 (1)      |                          |                      |
| Other payables                          |                |                          |                      |
| (Bank interest \$200 (1of) + \$150 (1)) |                |                          |                      |
| Heat and light)                         | <u>350</u>     | <u>(2 310)</u>           |                      |
| Net current assets                      |                |                          | <u>29 650</u>        |
|   |                |                          | 174 930              |
| <u>Less Non-current liabilities (1)</u> |                |                          |                      |
| 8% bank loan repayable 30 June 2019     |                | 40 000 (1 both)          |                      |
| Cain loan repayable 31 March 2018       |                | <u>10 000</u>            | <u>(50 000)</u>      |
| Net assets                              |                |                          | <u>124 930</u>       |
| Financed by                             |                |                          |                      |
| Capital accounts                        |                |                          |                      |
| Cain                                    |                | 80 000 (1 both)          |                      |
| Les                                     |                | <u>60 000</u>            | 140 000              |
| Current accounts                        |                |                          |                      |
| Cain                                    |                | 4 894 Dr (1 of           |                      |
| Les                                     |                | <u>10 176 Dr</u> both)   | <u>(15 070)</u>      |
|   |                |                          | <u>124 930</u>       |

[13]

[Total: 40]