

MARK SCHEME for the October/November 2014 series

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

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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	Source document	Book of prime entry	Effect on owner's capital
August 2	<i>Purchase invoice</i>	<i>Purchases journal</i>	<i>No effect</i>
August 5	Debit note (1)	Purchase returns journal (1)	No effect (1)
August 7	Cheque counterfoil (stub) (1)	Cash book (1)	Increase (1)
August 9	Sales invoice (1)	General journal (1)	No effect (1)

[9]

(b)

Account	Sub division of the ledger
Purchases	General (1)
Tiara	Purchases (1)
Non-current assets	General (1)
D Costa	Sales (1)

[4]

(c)

Adil
Trial Balance at 31 August 2014

	Debit	Credit
	\$	\$
Non-current assets	9 500	
Trade payables		8 500
Trade receivables	7 250	
Inventory	3 850	
Bank overdraft		1 600 (1)
Purchases	14 400	
Revenue		22 000
Bank loan		2 000 (1)
Capital		3 000
Suspense account (1)	2 100 (1of)	
	<u>37 100</u>	<u>37 100 (1)</u>

[5]

[Total: 18]

- 2 (a) Physical deterioration/Wear and tear
 Economic reasons/Obsolescence
 Passage of time
Not
 Depletion
 (1) × 2 points [2]

(b)

Year ended	Delivery vehicle 1	Delivery vehicle 2	Total for year
	\$	\$	\$
30 June 2013	3 000 (1)	-	3 000
30 June 2014	2 400 (1)	4 000 (1)	6 400
Total	5 400	4 000	

[3]

(c)

Provision for depreciation of delivery vehicles account

		\$			\$
30 June 2014	Disposal	5 400 (1)	1 July 2013	Balance b/d	3 000 (1)
30 June 2014	Balance c/d	4 000	30 June 2014	Income Statement	<u>6 400 (1)</u>
		<u>9 400</u>			<u>9 400</u>
			1 July 2014	Balance b/d	4 000 (1of)

[4]

(d)

	Journal		
	Dr	Cr	
	\$	\$	
Disposal	15 000		(1) Both
Delivery vehicle		15 000	
Provision for depreciation	5 400		(1)
Disposal		5 400	(1)
Bank	8 000		(1) Both
Disposal		8 000	
Income statement	1 600		(1of)
Disposal		1 600	(1of)

[6]

(e)

Statement of Financial Position at 30 June 2014

Non-current assets	Cost	Aggregate depreciation	Net book value
	\$	\$	\$
Delivery vehicles	20 000 (1)	4 000 (1)	16 000
			[2]

- (f)
- 1 Revenue (1)
 - 2 Capital (1)
 - 3 Revenue (1)
- [3]

[Total: 20]

3 (a)

Wing Limited		
Appropriation Account for the year ended 30 September 2014		
	\$	\$
Profit for year (78 000 (1) – 6000 (1))		72 000
Less		
Transfer to the general reserve	25 000 (1)	
Interim dividends:		
Preference paid	2 000 (1)	
Ordinary paid	8 000 (1)	
Final dividends:		
Preference paid	2 000 (1)	
Ordinary paid	<u>20 000 (1)</u>	
		<u>57 000</u>
Retained profit for the year		15 000 (1) w+f
Add Retained profit brought forward		<u>35 000 (1) w+f</u>
Retained profit carried forward		<u>50 000 (1) w+f</u>

[10]

(b)

Statement of Financial Position at 30 September 2014		
	\$	\$
Issued share capital:		
50 000 8% \$1 Preference shares	50 000 (1)	
80 000 \$1 Ordinary shares	<u>80 000 (1)</u>	
		130 000
Reserves:		
General reserve	80 000 (1)	
Retained profit	<u>50 000 (1of)</u>	
		<u>130 000</u>
Shareholders' funds/equity (1)		<u>260 000 (1of)</u>

[6]

(c)

	Ordinary shares:	Debentures:
1	Owners	Creditors/providers of loans
2	Paid dividend	Paid interest
3	No fixed dividend	Fixed rate of interest
4	No repayment date	Repayment date
	(1) × 2 difference	

[2]

- (d) To retain cash in the business
 To reinvest in assets to grow the business
 (1) × 1 point

[1]

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- (e) Enable a fair comparison of company financial statements in different countries.
Improve reliability of financial statements produced in different countries.
Improve understanding of financial statements produced in different countries.
(1) × 1 point

[Total: 20]

4 (a)

Ratio	Workings	Answer
Percentage gross profit/sales	$\frac{600\,000 - 480\,000}{600\,000} = \frac{120\,000}{600\,000} \times 100$ (1)	20% (1)
Percentage net profit/sales	$\frac{36\,000 - 8\,000}{600\,000} = \frac{28\,000}{600\,000} \times 100$ (1)	4.7% (1)
Return on capital employed (ROCE)	$\frac{36\,000}{200\,000 + 100\,000} = \frac{36\,000}{300\,000} \times 100$ (1)	12% (1)
Working capital ratio (Current ratio)	$\frac{75\,000 + 45\,000 + 60\,000}{50\,000} = \frac{180\,000}{50\,000}$ (1)	3.6:1 (1)

[12]

- (b) The current ratio is high/sufficient (1)
 Well above the yardstick level of 2:1 (1)
 There are currently some idle funds (1)
 (1) × 2 points

[2]

(c)

Proposals	Profit for the year			Capital employed		
	increase	decrease	no effect	increase	decrease	no effect
1			✓	✓		
2	✓ (1)				✓ (1)	
3	✓ (1)					✓ (1)
4		✓ (1)			✓ (1)	

[6]

- (d) Proposal 1 Historical cost (1)
 Proposal 2 Prudence (1)

[2]

[Total: 22]

5 (a)

Nikolas
Manufacturing Account for the year ended 31 July 2014

	\$	\$	
Inventory of raw materials at 1 August 2013	15 000		
Purchases of raw materials	<u>132 500</u>		
	147 500		
Less: Inventory of raw materials at 31 July 2014	<u>(17 500)</u>		
Cost of raw materials consumed (1)	130 000		(1)
Factory wages	90 800		(1)
Royalties	<u>15 000</u>		(1)
Prime cost (1)		235 800	(1of)
Factory overheads:			
Indirect factory expenses	12 750		(1)
Rent (11 000 × 80%)	8 800		(1)
Production managers' salaries	38 250		(1)
Insurance (6200 – 1200 = 5000 (1) × 80% (1))	4 000		
Provision for depreciation of machinery	<u>10 000</u>		(1)
		<u>73 800</u>	
		309 600	
Increase in work in progress (31 400 – 26 000)		5 400	(1)
Production cost (1)		<u><u>315 000</u></u>	

[14]

(b)

Income Statement for the year ended 31 July 2014

	\$	\$	
Revenue		505 000	(1)
Inventory of finished goods at 1 August 2013	40 000		
Production cost	315 000		(1of)
Drawings by owner	<u>(7 500)</u>		(1)
	347 500		
Inventory of finished goods at 31 July 2014	<u>(42 500)</u>		
Cost of sales		<u>(305 000)</u>	(1of)
Gross profit		200 000	
Less			
Insurance (6200 – 1200 = 5000 × 20%)	1 000		(1)
Rent (11 000 × 20%)	2 200		(1)
Office wages and salaries	56 000		(1)
Selling expenses	19 600		(1)
Distribution costs	31 500		(1)
Sundry office expenses (19 800 – 1400)	18 400		(1)
Loan interest (3500 + 1300)	4 800		(1)
Provision for depreciation on office equipment	5 500		(1)
Bad debts	3 000		(1)
Increase in provision for doubtful debts	<u>700</u>		(1)
		<u>(142 700)</u>	
Profit for the year		<u>57 300</u>	

(c)

Statement of Financial Position at 31 July 2014

	Cost	Aggregate depreciation	NBV	
	\$	\$	\$	
<u>Non-current assets</u>				
Machinery	125 000	85 000	40 000	(1of)
Office fixtures	<u>55 000</u>	<u>22 000</u>	<u>33 000</u>	(1of)
	<u>180 000</u>	<u>107 000</u>	73 000	
<u>Current assets</u>				
Inventory:				
– Raw materials	17 500			
– Work in progress	26 000			
– Finished goods	<u>42 500</u>			
		86 000		(1)
Trade receivables	55 000			
Less: provision for				
– doubtful debts	<u>2 200</u>			(1)
		52 800		(1of)
Other receivables (1400 + 1200)		2 600		(1)
Bank		<u>27 700</u>		(1)
		169 100		
Less: <u>current liabilities</u>				
Trade payables	71 000			(1)
Other payables	<u>1 300</u>			(1)
		(72 300)		
Net current assets			<u>96 800</u>	(1of)
			169 800	
<u>Non-current liabilities</u>				
8% loan (repayable 31 May 2024)			<u>(60 000)</u>	(1)
			<u>109 800</u>	
Capital		80 000		
Plus: Profit for the year		<u>57 300</u>		
		137 300		
Less: Drawings (20 000 (1) + 7500 (1))		<u>(27 500)</u>		
			<u>109 800</u>	

[13]

[Total: 40]