**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.

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1 (a) (i) Book-keeping refers to the maintaining of all double entry records/recording transactions **(1)**
Accounting refers to the preparation (and interpretation) of financial statements **(1)** [2]

(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<br>$ | Cr<br>$ | |
|---|---|---|---|
| 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 being manufactured. [1]

**(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]**