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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2014 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.
1  (a)  B

(b)  C

(c)  C

(d)  C

(e)  C

(f)  B

(g)  B

(h)  B

(i)  A

(j)  A  (1) mark each

[Total: 10]
2 (a) 1 Invoice (1)  
2 Debit note (1)  
3 Statement of account (1)  

(b) (i) Debit (1)  
(ii) Cash discount (1)  
(iii) For prompt payment (1)  

(c)  
<table>
<thead>
<tr>
<th>Debit entry</th>
<th>Credit entry</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Hal account 300</td>
<td>Sales account 300</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td>2 Cash account 300</td>
<td>Hal account 300</td>
<td>$300</td>
<td>$300</td>
</tr>
<tr>
<td>3 Bank account 250</td>
<td>Cash account 250</td>
<td>$250</td>
<td>$250</td>
</tr>
<tr>
<td>4 Drawings account400</td>
<td>Bank account 400</td>
<td>$400</td>
<td>$400</td>
</tr>
<tr>
<td>5 Bank account 600</td>
<td>Mabel account 600</td>
<td>$600</td>
<td>$600</td>
</tr>
</tbody>
</table>

[d] Transaction 3 (1)  

(e) $620 (1) – $10 (1) = $610 (2)  
OR  
$660 (1) – $100 (1) + $50 (1) = $610 (1)  

[f] Current assets (1)  

(g) Inventory  
Trade receivables  
Other receivables  
Cash  

Answer to be consistent with answer to (f)  
Any 1 item (1)  

[Total: 21]
3  (a) A prepayment is an amount paid in advance for a service which has not yet been received (1)
   An accrual is an amount owed for a service which has been received but not yet paid for (1) [2]

(b) Insurance Account

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>July 1 Balance b/d</td>
<td>180 (1)</td>
</tr>
<tr>
<td>Aug 2 Bank/Cash</td>
<td>2340 (1)</td>
</tr>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>June 30</td>
<td></td>
</tr>
<tr>
<td>Statement Balance c/d</td>
<td>195</td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>July 1 Balance b/d</td>
<td>195 (1)</td>
</tr>
</tbody>
</table>

+ (1) dates [5]

(c) (i) Profit and loss/expenses (1) [1]
   (ii) Accruals/matching (1) [1]

(d) (i) Service business (1) [1]
   (ii) Sales/revenue/sales returns
   Inventory (opening and closing)
   Purchases/purchases returns
   Carriage
   Cost of sales
   Goods for own use
   Gross profit
   Any 2 items (1) each [2]

(e) (i) Prudence (1) [1]
   (ii) At the lower (1) of cost and net realisable value (1) [2]

(f) $ 
   Scrap value 10 × $2 20 (1)
   Less selling expenses 7 (1)
   Net realisable value 13 (1)CF [3]
(g) (i) It is a record of what has happened in the past.
There is a gap between the year end and the preparation of the statements.
Items are recorded at cost so may not be realistic/difficult to judge effect of inflation.
May not know what policies the business is using so problems of comparison.
Only information which can be expressed in monetary terms in recorded – other
important factors are not recorded.
Different definitions can make comparisons difficult.

Or other reasonable comment
Any 1 comment (2) [2]

(ii)

<table>
<thead>
<tr>
<th></th>
<th>Income statement</th>
<th>Statement of financial position</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Debit</td>
<td>Credit</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation charge for</td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid rent</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Discount received</td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>Commission received</td>
<td>✓ (1)</td>
<td></td>
</tr>
</tbody>
</table>

[4]

[Total: 24]
4 (a) | Error | Affects balancing of trial balance | Does not affect balancing of trial balance |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>2</td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>✓ (1)</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>✓ (1)</td>
</tr>
<tr>
<td>5</td>
<td>✓ (1)</td>
<td></td>
</tr>
</tbody>
</table>

[4]

(b) Statement of corrected profit

<table>
<thead>
<tr>
<th>Draft profit for the year</th>
<th>26,800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Error 1</td>
<td>160 (1)</td>
</tr>
<tr>
<td>Error 2</td>
<td>1,000 (1)</td>
</tr>
<tr>
<td>Error 3</td>
<td>250 (1)</td>
</tr>
<tr>
<td>Error 4</td>
<td>No effect (1)</td>
</tr>
<tr>
<td>Error 5</td>
<td>(600) (2)</td>
</tr>
<tr>
<td>Corrected profit for the year</td>
<td>27,610 (1) OF</td>
</tr>
</tbody>
</table>

[7]

(c) Error of commission (1)

[1]

[Total: 12]
5 (a)  

Cost 1200
Depreciation year 1 240 (1)
Depreciation year 2 192 (1)
Total depreciation 432 (1) [3]

(b)  

Fixtures and fittings account

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Balance b/d</td>
<td>31200 (1)</td>
</tr>
<tr>
<td>Aug 1</td>
<td>Bank/cash</td>
<td>2500 (1)</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Balance c/d</td>
<td>13916</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Balance b/d</td>
<td>32500 (1)OF</td>
</tr>
</tbody>
</table>

Provision for depreciation Account

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1</td>
<td>Disposal</td>
<td>432 (1)OF</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Balance c/d</td>
<td>13916</td>
</tr>
</tbody>
</table>

***Calculation of depreciation for the year

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1</td>
<td>Balance b/d</td>
<td>9702 (1)</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Income Statement</td>
<td>4646 ***</td>
</tr>
</tbody>
</table>

20% × 23,230 OF = 4646 (1)OF

Disposal account

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1</td>
<td>Fixtures and Fittings</td>
<td>1200 (1)</td>
</tr>
<tr>
<td>Dec 31</td>
<td>Income Statement</td>
<td>168 (1)OF</td>
</tr>
</tbody>
</table>

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Extract from Income Statement for the year ended 31 December 2013

$  
Expenses  
Loss on disposal of fixtures and fittings 168 (1)OF  
Depreciation – fixtures and fittings 4 646 (1)OF  

Ajith

Extract from Statement of Financial Position at 31 December 2013

$  
Non-current assets  
Fixtures and fittings at cost 32 500 (1)OF  
Depreciation to date 13 916 (1)OF  
18 584  

[4]

[Total: 22]
6  (a) To obtain limited liability
   To obtain extra capital
   Any 1 reason (1)

   (b) Preference share capital

   (c) For reinvestment in the business
   To plough back profits
   To set aside profit for dividends in the future
   If there is not enough actual cash available to pay a dividend
   Any 2 reasons (1) each

   (d)
   ABC Limited
   Profit for the year before interest  $15,000
   Less debenture interest  $1,500 (1)
   Profit for the year  $13,500 (1)

   XYZ Limited
   Profit for the year before interest  $15,000
   Less debenture interest  $8,000 (1)
   Profit for the year after interest  $7,000 (1)

   [4]

   (e)
   ABC Limited
   Appropriation Account for the year ended 31 December 2013
   Profit for the year  $13,500 (1)OF
   Less Ordinary share dividend
   (260,000 shares \times $0.03)  $7,800 (2)
   Transfer to general reserve  $5,000 (1)  $12,800
   Profit retained in the year  $700
   Retained profit b/f  $29,300 (1)
   Retained profit c/f  $30,000 (1)OF

   XYZ Limited
   Appropriation Account for the year ended 31 December 2013
   Profit for the year  $7,000 (1)OF
   Less Ordinary share dividend
   (62,000 shares \times $0.05)  $3,100 (2)
   Profit retained in the year  $3,900
   Retained profit b/f  $14,100 (1)
   Retained profit c/f  $18,000 (1)OF

   [11]
(f) ABC has more equity
   XYZ Limited has more long term loans/debentures/debt
   ABC’s dividend paid is less expensive than XYZ’s loan interest paid
   ABC paid a higher total dividend than XYZ
   XYZ paid a higher total loan interest than ABC
   ABC made a transfer to general reserve
Any 2 comments (1) each [2]

(g) ABC Limited
    Statement of Financial Position at 31 December 2013
    
    $       
    Non-current assets          100 000 (1)  
    Net current assets          80 000 (1)  
    180 000
    Non-current liabilities
    10% Debentures              15 000 (1)  
    165 000
    Capital and reserves
    Ordinary share of $0.50 each 130 000 (1)  
    General reserve             5 000 (1)   
    Retained profit             30 000 (1)OF 
    165 000
[6]

(h) Shares in ABC had a return of 6% (1) but shares in XYZ had a return of 5% (1)
ABC had a lower amount of loan capital (1) so less risky (1)  
[4]
[Total: 31]