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) Work can be shared amongst several people
Easier for reference as the same types of account are kept together
Easier to introduce checking procedures
Reduces the possibility of fraud
Or other suitable advantage
Any 2 advantages (1) each [2]

(b) Any non-current asset, inventory, capital drawings, loan, sales, purchases, returns, expenses, incomes, provisions etc.
Any 1 example (1) [1]

(c) Sahira Ali
Waheed Khan account

\[
\begin{array}{cccc}
\text{2014} & \text{2014} \\
\text{Oct} & \text{Oct} \\
\text{16} & \text{1} \\
\text{Returns} & \text{Balance b/d} \\
\text{24} & \text{380 (1)} \\
\text{Bank/cash} & \text{336 (1)} \\
\text{Discount} & \text{10 (1)} \\
\text{31} & \text{168} \\
\text{Balance c/d} & \text{726} \\
\hline
\end{array}
\]

\[
\begin{array}{cccc}
\text{2014} & \text{2014} \\
\text{Nov} & \text{Oct} \\
\text{1} & \text{31} \\
\text{Balance b/d} & \text{Balance c/d} \\
\text{168 (1)} & \text{936} \\
\text{OF} & \text{OF} \\
\hline
\end{array}
\]

Iqbal Wholesalers account

\[
\begin{array}{cccc}
\text{2014} & \text{2014} \\
\text{Oct} & \text{Oct} \\
\text{31} & \text{1} \\
\text{Balance c/d} & \text{Balance b/d} \\
\text{936} & \text{650} \\
\text{5} & \text{Purchases} \\
\text{31} & \text{Interest} \\
\text{6 (1)} & \text{936 (1)} \\
\hline
\end{array}
\]

\[
\begin{array}{cccc}
\text{2014} & \text{2014} \\
\text{Nov} & \text{Oct} \\
\text{1} & \text{31} \\
\text{Balance b/d} & \text{Balance c/d} \\
\text{936 (1)} & \text{936} \\
\text{OF} & \text{OF} \\
\hline
\end{array}
\]

+ (1) dates
Three column running balance format acceptable [9]

(d) \[
\frac{\text{Trade payables}}{\text{Credit purchases}} \times \frac{365}{1} \] [1]
(e) \[
\frac{3100 \times 365 \text{ (whole formula)}}{21200} = 53.37 = 54 \text{ days (1)}
\]

(f) May be able to take advantage of cash discounts
Improve the relationship with suppliers
Avoid paying interest
Or other suitable comment
Any 1 advantage (1)

(g) The business is deprived of the use of the money earlier than necessary
Or other suitable comment
Any 1 disadvantage (1)

(h) To avoid overstating the profit for the year
To avoid overstating the current assets
To apply the principle of prudence
Any 2 comments (1) each

(i) The estimated receipts from the sale of the inventory (1) less any costs of completing the goods or costs of selling the goods (1)
### (j)

<table>
<thead>
<tr>
<th>Description</th>
<th>Overstated</th>
<th>Understated</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit for the year ended 31 October 2013</td>
<td>✓ (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross profit for the year ended 31 October 2014</td>
<td></td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>Profit for the year ended 31 October 2013</td>
<td>✓ (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year ended 31 October 2014</td>
<td></td>
<td>✓ (1)</td>
<td></td>
</tr>
<tr>
<td>Current assets at 31 October 2013</td>
<td>✓ (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets at 31 October 2014</td>
<td></td>
<td></td>
<td>✓ (1)</td>
</tr>
</tbody>
</table>

[Total: 27]
2 (a)  

Mochudi Manufacturing Company  
Manufacturing Account for the year ended 31 July 2014  

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of materials used</td>
<td>$99,500</td>
</tr>
<tr>
<td>Purchases of raw materials</td>
<td>$110,000</td>
</tr>
<tr>
<td>Less Returns</td>
<td>$8,600</td>
</tr>
<tr>
<td>Closing inventory of raw materials</td>
<td>$89,800</td>
</tr>
<tr>
<td>Direct wages (94,200 + 3100)</td>
<td>$97,300</td>
</tr>
<tr>
<td>Prime cost</td>
<td>$187,100</td>
</tr>
<tr>
<td>Factory overheads</td>
<td></td>
</tr>
<tr>
<td>Wages of factory supervisors</td>
<td>$41,050</td>
</tr>
<tr>
<td>Factory general expenses</td>
<td>$19,400</td>
</tr>
<tr>
<td>Factory rates and insurance ($\frac{3}{4} \times (5000 - 400)$)</td>
<td>$3,450</td>
</tr>
<tr>
<td>Depreciation Machinery (15% \times 102,000)</td>
<td>$15,300</td>
</tr>
<tr>
<td>Loose tools (4400 - 3300)</td>
<td>$1,100</td>
</tr>
<tr>
<td>Closing work in progress</td>
<td>$8,200</td>
</tr>
<tr>
<td>Cost of production</td>
<td>$259,200</td>
</tr>
</tbody>
</table>

Horizontal format acceptable

[12]
(b) Revenue $400,400

Cost of sales

Cost of production $259,200 (1) OF

Purchases of finished goods $278,500

Closing inventory of finished goods $21,100

Gross profit $257,400 (1) OF

Less:

Office staff salaries $33,100 (1)

Sales staff salaries $18,900 (1)

Office general expenses (17,530 – 280) $17,250 (1)

Rates and insurance (¼ x (5,000 – 400)) $1,150 (1)

Depreciation office fixtures and fittings (12½% x 56,000) $7,000 (1)

Profit for the year $65,600 (1) OF

Horizontal format acceptable

[10]

c)

<table>
<thead>
<tr>
<th>Error</th>
<th>Effect on profit for the year</th>
<th>Increase</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>200 (1)</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>810 (1)</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>940 (1)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>1050 (1)</td>
</tr>
</tbody>
</table>

[4]

[Total: 26]
3 (a)

Leeford Athletics Club
Subscriptions account

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income &amp; Expenditure</td>
<td>12 000 (1)</td>
<td>1200 (1)</td>
</tr>
</tbody>
</table>

Oct 31 Balance b/d

Bank/cash Balance c/d

2880

2014

Balance c/d

12 000

Nov 1 Balance b/d

2880 (1) OF

+ (1) dates

Three column running balance format acceptable

(b) Current assets (1) OF

Answer to be based on closing balance in (a)

(c)

Leeford Athletics Club
Subscriptions account

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>4 590 (1)</td>
<td>4 000 (1)</td>
</tr>
</tbody>
</table>

Oct 31 Equipment General expenses

Subscriptions 7 920 (1)

Sale of equipment 1 500 (1)

Loan interest 9 310 (1)

Rent 4 500 (1)

Open day receipts 770 (1)

Bank charges 30 (1)

Balance c/d 18 240

2014

Nov 1 Balance b/d 3 460 (1) OF

(d)

<table>
<thead>
<tr>
<th>Item</th>
<th>$</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of equipment</td>
<td>700 (1)</td>
<td>Only the loss (1) on the equipment is charged not the capital receipt. (1)</td>
</tr>
<tr>
<td>Rent of clubhouse</td>
<td>3 600 (1)</td>
<td>The accruals (matching) principle is applied. (1) Only the expense for the year is charged to the income and expenditure account (1)</td>
</tr>
</tbody>
</table>

[Total: 22]
4  
(a) 1 June 2013 Balance – rates $70
Explanation  This represents rates prepaid (1). This was paid in the year ended 31 May 2013 but relates to the year ended 31 May 2014. (1)
Statement of financial position section Current assets (1)  

1 June 2013 Balance – rent $120
Explanation  This represents rent accrued (1). This relates to the year ended 31 May 2013 and remained unpaid at the end of the year. (1)
Statement of financial position section Current liabilities (1)  

(b) 31 May 2014 Bank $2570
This represents the total amount paid (1) by cheque (1) for rent and rates during the year ended 31 May 2014.  

31 May 2013 Income statement $2280
This is the amount transferred to the income statement (1) which represents the rent and rates for that financial year (1).  

(c) Only the rent and rates relating to the current year are transferred to the income statement. (1) Adjustments are made for accruals and prepayments (1)  

(d) \[
\frac{47\,600 - 38\,400}{47\,600} \times 100 = 19.33\% \quad (1)
\]

(e) Selling goods at lower prices
Purchasing goods at higher prices
Changes in the proportions of goods sold
Or other acceptable reason
Any 2 reasons (1) each  

(f) Assess prospects of any requested loan/overdraft being repaid when due
Assess prospects of any interest on loan/overdraft being paid when due
Assess security available to cover any loan/overdraft
Any 2 reasons (1) each  

(g) Lender
Investor
Credit supplier
Customer
Owner
Manager (if any)
Employee/trade union
Government body
Competitor
Take-over bidder
Potential partner
Or other suitable interested person
Any 2 persons (1) each  

[Total: 20]
5 (a)  

Watson Limited  
Statement of Financial Position at 30 September 2014  

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost</td>
<td>Depreciation to date</td>
<td>Net Book value</td>
</tr>
<tr>
<td><strong>Non-current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premises</td>
<td>99,000</td>
<td></td>
<td>99,000</td>
</tr>
<tr>
<td>Fixtures &amp; fittings</td>
<td>65,000</td>
<td>2,300</td>
<td>42,000 (1)</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>33,000</td>
<td>11,000</td>
<td>22,000 (1)</td>
</tr>
<tr>
<td></td>
<td>197,000</td>
<td>34,000</td>
<td>163,000 (1)</td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>19,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>28,000</td>
<td>26,600 (1)</td>
<td></td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>1,400</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables</td>
<td>300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>46,700 (1) OF</td>
<td></td>
<td>46,700 (1) OF</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>16,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payables</td>
<td>350</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank</td>
<td>2,050 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proposed dividend</td>
<td>2,000 (1)</td>
<td>20,700 (1) OF</td>
<td></td>
</tr>
<tr>
<td><strong>Net Current Assets</strong></td>
<td>26,000</td>
<td></td>
<td>189,000</td>
</tr>
<tr>
<td><strong>Non-current Liabilities</strong></td>
<td></td>
<td></td>
<td>179,000</td>
</tr>
<tr>
<td>4% Debentures</td>
<td>10,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital and Reserves</strong></td>
<td></td>
<td></td>
<td>120,000 (1)</td>
</tr>
<tr>
<td>Ordinary share capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General reserve (20,000 (1) + 12,000 (1))</td>
<td></td>
<td>32,000</td>
<td></td>
</tr>
<tr>
<td>Retained profit</td>
<td>27,000 (1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>179,000 (1) OF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Accept other suitable formats  

(b)  Debentures are long-term loans  
Debenture holders are not members of the company  
Debentures do not carry voting rights  
Debentures carry a fixed rate of interest  
Debenture interest is not dependent on the company’s profit  
Debentures are often secured on the assets of the company  
Debenture holders are repaid before shareholders in the event of a winding up  
Debentures are repaid by a set date  

Any 2 features (1) each  

[15]  

[2]
(c) Reduction in profit available for ordinary shareholders
Prior claim on the assets of the company in the event of a winding up

Or other acceptable point

Any 1 point (2) [2]

(d) (i) The number of times a business sells and replaces its inventory in a given period of time. [1]

(ii) Cost of sales
Average inventory [1]

(iii) \[
\frac{243 200}{22 500 + 19 300 / 2} = 11.64 \text{ times} \] (1) [2]

(e) Rate falling over the three years
May indicate reduction in efficiency
May indicate that sales are slowing down
May indicate the inventory is too high
Or other suitable comments
Comment to be based in QF answer to (d)(iii)
Any 2 comments (1) each [2]

[Total: 25]