

MARK SCHEME for the May/June 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.

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1 (a)

| Journal | | Dr | Cr | |
|---------|---------------------------|--------|--------|-------------------------|
| | | \$ | \$ | |
| | Non-current assets at NBV | 14 000 | | |
| | Trade receivables | 3 012 | | |
| | Insurance | 260 | | |
| | Trade payables | | 1 298 | |
| | Rent | | 350 | |
| | Bank overdraft | | 324 | |
| | Capital | | 15 300 | (2) (1) of |
| | | 17 272 | 17 272 | (1) of both same |

Assets and liabilities at 1 May 2012 **(1)**

To record capital at 1 May 2012

[4]

(b)

| | | Insurance account | | | |
|----------|-------------|-------------------|----------|------------------------------|-------------------|
| 2012 | | \$ | 2013 | | \$ |
| May 1 | Balance b/d | 260 (1) | April 30 | Income Statement | 900 (1) of |
| 2013 | | | | | |
| April 30 | Bank/cash | 840 (1) | | Balance c/d | 200 |
| | | 1 100 | | | 1 100 |
| 2013 | | | 2013 | | |
| May 1 | Balance b/d | | | 200 (1) of debit only | |

Year + all dates (1)

[5]

(c)

| | | Rent account | | | |
|----------|-------------|-------------------|----------|------------------|----------------------|
| 2013 | | \$ | 2012 | | \$ |
| April 30 | Bank/cash | 11 350 (1) | May 1 | Balance b/d | 350 (1) |
| | | | 2013 | | |
| | Balance c/d | 1 000 | April 30 | Income statement | 12 000 (1) of |
| | | 12 350 | | | 12 350 |
| 2013 | | | 2013 | | |
| | | | May 1 | Balance b/d | 1 000 (1) |

Year + all dates (1)

[5]

(d) Accrual (matching) principle **(2)**

[2]

| | | | |
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- (e) Capital receipts arise from selling non-current assets, (2) and revenue receipts arise from day-to-day business activities (2).

Capital receipts arise from owners/lenders providing additional capital (2) and revenue receipts from the sale of goods (2).

Capital receipts are recorded in the balance sheet (2) and revenue receipts are recorded in the income statement (2). **[max 4]**

(f)

| Transaction | Capital receipt | Revenue receipt |
|-------------------------|-----------------|-----------------|
| Cash sales | | √(1) |
| Loan from bank | √(1) | |
| Discount received | | √(1) |
| Commission received | | √(1) |
| Sale of a motor vehicle | √(1) | |

[5]

[Total: 25]

| | | | |
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2 (a) General Journal

| | Dr | Cr | |
|-------------------------------|----------------|----------------|------------|
| | \$ | \$ | |
| 1 Commission received | 120 (1) | | |
| Suspense | | 120 (1) | |
| 2 No debit required | – (1) | | |
| Suspense | | 824 (1) | |
| 3 Insurance | 90 (1) | | |
| Suspense | | 90 (1) | |
| 4 Suspense | 108 (1) | | |
| Sales returns/returns inwards | | 108 (1) | [8] |

(b) Suspense account

| 2013 | \$ | 2013 | \$ | |
|----------------------|------------------------|----------------------------|------------------|------------|
| May 31 Balance on TB | 926 | May 31 Commission received | 120 (1) | |
| | | Trade receivables | 824 (1) | |
| | | Insurance | 90 (1) of | |
| | <u>1034</u> (1) | | <u>1034</u> | [4] |

(c) Allow any **three** from the following errors.

(Omission) Transaction is omitted completely from books. **(2)**

(Commission) Correct amount posted to correct side of the ledger in the same class of account, but to the wrong account. **(2)**

(Principle) Correct amount on the correct side in the wrong class of account. **(2)**

(Complete reversal) A transaction that should be debited is credited or vice versa. **(2)**

(Original entry) The original figure entered is incorrectly entered in the books of prime entry. **(2)**

(Compensating: error) One error(s) cancels out another error(s) of the same amount. **(2)**
[max 6]

[Total: 18]

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3 (a) Employee 001

| | | |
|------------------------------------------|------------------|--|
| | \$ | |
| Gross pay | 2200 | |
| Tax | (440) (1) | |
| Employee's social security contributions | <u>(132) (1)</u> | |
| Net pay | 1899 | |

| | | | |
|------------------------------------------|-----------------|--|-----|
| Employee 002 | \$ | | |
| Gross pay | 2600 | | |
| Tax | (520) (1) | | |
| Employee's social security contributions | (156) (1) | | |
| Charitable donations | <u>(25) (1)</u> | | |
| Net pay | 1899 | | [5] |

| | | | |
|------------------------------------------|----------------|--|-----|
| (b) | \$ | | |
| Total gross pay | 4800 (1) | | |
| Employer's social security contributions | <u>432 (1)</u> | | |
| Total cost | 5232 (1) | | [3] |

| | | |
|-----------------------------------------|--|---------|
| (c) Timesheets (1) | | |
| Clock cards (1) | | |
| Swipe cards/used with a computer system | | [max 2] |

| | | |
|--------------------------------------------------------------------------------|--|---------|
| (d) An employee may choose to have voluntary deductions from gross pay. | | |
| Not required by law | | |
| Not mandatory/compulsory | | |
| Employee pays by choice/willingly | | [max 1] |

[Total: 11]

| | | | |
|--------|-----------------------------|----------|-------|
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4 (a) (i) Sales (Cost of sales \$90 000 + 25%) \$ 112 500 [2]

(ii) Purchases

| | | | |
|-------------------------|-----------------|----------------|-----|
| | \$ | | |
| Inventory 30 April 2012 | 14 841 | | |
| Purchases | 96 318 (2) | | |
| Inventory 30 April 2013 | <u>(21 159)</u> | | |
| Cost of goods sold | | <u>90 000</u> | |
| Gross profit | | 22 500 | |
| Administration expenses | 4 890 | | |
| Selling expenses | <u>7 485</u> | <u>(12375)</u> | [2] |

(iii) 10 125 (2)/(1) of [2]

(b)

| | Workings | 30 April 2013 | 30 April 2012 |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------|
| Gross profit margin (gross profit/sales) | $\frac{\$22\,500\ (1)\ of}{\$112\,500\ (1)\ of} \times 100 =$ | 20% | 25% |
| Net profit margin (net profit/sales) | $\frac{\$10\,125\ (1)\ of}{\$112\,500\ (1)\ of} \times 100 =$ | 9% | 11% |
| Rate of inventory turnover | $\frac{\text{Cost of goods sold}}{\text{Average inventory}}$ $\frac{\$90\,000\ (1)}{\$18\,000\ (1)} =$ OR $\frac{\text{Average inventory} \times 365}{\text{Cost of goods sold}}$ $\frac{\$18\,000\ (1) \times 365}{\$90\,000\ (1)} =$ | 5 times OR 73 days | 8 times OR 45.6 days |
| Return on capital employed (ROCE) | $\frac{\text{Net profit}}{\text{Capital}} \times 100$ $\frac{\$10\,125\ (1)\ of}{\$101\,250\ (1)} \times 100 =$ | 10% | 12% |

[8]

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(c) Accept comments on own figures from (b)

Overall profitability was lower in 2013 **(1)**
 Overall all the profitability ratios have fallen **(1)**
 Gross profit and net profit (margin) have both fallen **(2)**

The gross profit margin has fallen in 2013 **(1)**
 from 25% to 20%/or by 5% **(1)**
 because selling price has been decreased **(1)**
 or cost of sales has increased **(1)** [max 3]

The net profit margin has fallen in 2013 **(1)**
 from 11% to 9%/or by 2% **(1)**
 because the gross profit is lower **(1)**
 expenses are higher **(1)** [max 3]

The return on capital employed has fallen in 2013 **(1)**
 from 12% to 10%/or by 2% **(1)**
 because net profit is lower **(1)**
 capital employed is higher/taken a long term loan **(1)** [max 3]

The rate of inventory turnover has decreased in 2013 **(1)**
 from 8 times to 5 times/or by 3 times **(1)**
 or from 45.6 days to 73 days/or by 27.4 days **(1)**
 because they are selling the inventory more slowly **(1)**
 closing inventory has increased **(1)** [max 3]

[max 6]

(d) Reduce inventory levels by reducing purchases (2)

Give discounts to get rid of surplus stock **(2)**

Promote sales by offering cash/trade discounts **(2)**

Sales promotions/advertising to increase sales **(2)**

Reduce selling price to sell more **(2)**

Reduce mark up on cost of sales **(2)**

Use a just-in-time stock control system **(2)**

Find cheaper suppliers/buy in bulk to reduce the cost of sales **(2)** [max 6]

[Total: 26]

| | | | |
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5 (a)

Patricia Chin
Income Statement for the year ended 31 March 2013 **(1) both**

| | \$ | \$ | \$ |
|-------------------------------------------------|--------------------|------------------|------------------------|
| Revenue | | | 119 140 |
| Less cost of sales | | | |
| Inventory 1 April 2012 | | 5 430 (1) | |
| Purchases | 60 200 | | |
| Purchases returns | <u>(2 900) (1)</u> | <u>57 300</u> | |
| Inventory 31 March 2013 | | 62 730 | |
| | | <u>4 200</u> | <u>(58 530) (1) of</u> |
| Gross profit | | | 60 610 (1) of |
| Add Other income | | | |
| Discount received | | | 884 (1) |
| Decrease in provision for doubtful debts | | | <u>362 (1)</u> |
| Less Expenses | | | |
| Wages | | 20 960 (1) | |
| General expenses (\$9 100 – \$2 000) | | 7 100 (1) | |
| Insurance (\$12 600 – \$1 800) | | 10 800 (1) | |
| Motor expenses (\$5 670 + \$225) | | 5 895 (1) | |
| Discount allowed | | 1 428 (1) | |
| Loan interest | | 2 100 (1) | |
| Bad debts | | 246 (1) | |
| Depreciation: | | | |
| Premises (\$67 000 × 2%) | | 1 340 (2) | |
| Fixtures and fittings (\$20 000 + \$2 000 × 8%) | | 1 760 (2) | |
| Motor vehicle (\$18 000 – \$11 520 × 20%) | | <u>1 296 (2)</u> | <u>(52 925)</u> |
| Profit for year | | | <u>8 931</u> |

[20]

| | | | |
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(b)

Patricia Chin
Balance Sheet (Statement of Financial Position) as at 31 March 2013

| | Cost | Accumulated Depreciation | Carrying amount (NBV) |
|-------------------------------------|---------------------|-----------------------------|--------------------------|
| <u>Non-current</u> | | | |
| | \$ | \$ | \$ |
| Premises | 67 000 | 4 020 | 62 980 (1) |
| Fixtures and fittings | 22 000 | 11 360 | 10 640 (1) of |
| Motor vehicle | <u>18 000</u> | <u>12 816</u> | 5 184 (1) of |
| | <u>107 000</u> | <u>28 196</u> | |
| <u>Current assets</u> | | | |
| Inventory | | 4 200 (1) | |
| Trade receivables | 7 300 (1) | | |
| Provisions for doubtful debts | <u>(438) (1) of</u> | 6 862 | |
| | | <u>1 800 (1)</u> | |
| | | 12 862 (1) of | |
| <u>Current liabilities</u> | | | |
| Trade payables | 4 920 (1) | | |
| Other payables | 2 325 | | |
| (Motor expenses \$225 (1)) | | | |
| Loan interest \$2 100 (1) of | | | |
| Bank overdraft | <u>3 130 (1)</u> | (10 375) (1) of | |
| Net current assets | | | <u>2 487</u> |
| | | | 81 291 |
| <u>Non-current liabilities (1)</u> | | | |
| 7% bank loan | | | <u>(30 000) (1)</u> |
| | | | 51 291 |
| <u>Financed by</u> | | | |
| Capital | | | 56 000 (1) |
| Profit for the year | | | <u>8 931 (1) of</u> |
| | | | 64 931 |
| Drawings (\$12 840 (1) + \$800 (1)) | | | <u>51 291</u> |
| | | | [20] |
| | | | [Total: 40] |