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**PRINCIPLES OF ACCOUNTS**

**7110/21**

Paper 2

**May/June 2016**

MARK SCHEME

Maximum Mark: 120

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**Published**

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**1 (a)**

Assets	\$	Liabilities	\$	Capital	\$
Inventory	2850	Other payable	200		
Trade receivable	600	Bank	450		
Motor vehicle	<u>4500</u>	5% Bank loan	<u>5000</u>		
	<u>7 950</u>		<u>5650</u>	2300	(1)

[1]

**(b)**

Jaafar account

Date	Details	\$		Date	Details	\$	
2015				2015			
May 1	Balance b/d	600		May 5	Sales returns / returns in	102	(1)
4	Sales	1275	(1)	16	Bank	588	(1of)
					Discount allowed	12	(1of)
				31	Balance c/d	<u>1173</u>	
		<u>1875</u>				<u>1875</u>	
June 1	Balance b/d	1173	(1of)				

[5]

**(c)** Bulk purchase by Jaafar  
Loyal customer

**(1) mark × 2 points**

[2]

(d)

Electricity account

Date	Details	\$		Date	Details	\$	
2015				2015			
May 17	Bank	440	(1)	May 1	Balance b/d	200	
31	Balance c/d	55	(1)	31	Income Statement (1)	<u>295</u>	(1of)
		<u>495</u>				<u>495</u>	
				June 1	Balance b/d	55	
							(1of)

[5]

(e) Matching / Accrual concept

[1]

(f)

		Source document	Book of prime entry	Effect on owner's capital (\$)
9 May	Sold goods on credit for £900, (cost \$600).	<i>Sales invoice</i>	<i>Sales journal</i>	+300
14 May	Customer returned goods, bought by him on 9 May, for \$300.	Credit note (1)	Sales returns /returns in daybook /journal (1)	-100 (1)
21 May	Paid wages in cash \$150.	Payslip/Wages book (1)	Cash Book (1)	-150(1)

[6]

[Total:20]

- 2 (a) Depreciation is the loss in value of a non-current asset (1) over its working life / in the accounting period. (1) [2]

(b)

Statement	True	False
1. There is only one method of charging depreciation.		✓
2. Depreciation is the putting by of cash for asset replacement.		✓ (1)
3. Depreciation is an application of the going concern concept.	✓ (1)	

[2]

- (c) (i) Loss on sale of vehicle \$16 000  
\$7000 = \$9000 less receipt \$8400 = \$600 loss (1) [1]

(ii)

	Cost (\$)	Accumulated Depreciation (\$)	Net book value \$	Depreciation for the year (\$)	
	50 000	18 400			
Sale	<u>(16 000)</u>	<u>(7 000)</u>			
	34 000	11 400	22 600 x 25% =	5 650	(1)
Purchase	<u>20 000</u>		20 000 x 25% =	<u>5 000</u>	(1)
Total	<u>54 000</u>			<u>10 650</u>	

[2]

(d)

Motor vehicles – provision for depreciation account

Date	Details	\$		Date	Details	\$	
2015				2015			
May 31	Disposal (1)	7 000	(1)	Mar 1	Balance b/d	18 400	(1)
2016				2016			
Feb 29	Balance c/d	<u>22 050</u>		Feb 29	Income statement / Depreciation	<u>10 650</u>	(1of)
		<u>29 050</u>				<u>29 050</u>	
				Mar 1	Balance b/d	22 050	(1of)

[5]

(e)

Journal

	Dr		Cr	
	\$		\$	
Bank	1800	(1)		
Bad debts	3300	(1)		
Wade Designs / Sales ledger control / Trade receivables			5100	(1)
				[3]

(f)

	\$		\$	
Up to 1 month	18 000	× 2%	=360	
1 to 3 months	12 200	× 5%	=610	
3 to 6 months	3 300	× 10%	=330	
Over 6 months	<u>2 200</u>	× 20%	<u>=440</u>	
	35 700		1740	(1)
				[1]

(g)

Provision for doubtful debts account

Date	Details	\$		Date	Details	\$	
2016				2015			
29 Feb	Income Statement	310	(1of)	1 Mar	Balance b/d	2050	(1)
	Balance c/d	1740					
		<u>2050</u>				<u>2050</u>	
				2016			
				1 Mar	Balance b/d	1740	(1of)

[3]

(h) Prudence / matching / accruals (1)

[1]

[Total:20]

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3 (a) (i)

Sales revenue		\$	
Trade receipts		32 000	
Cash receipts	7 400 + 9 000 + 11500 =	<u>27 900</u>	(1)
		59 900	
Trade receivables at 31 March		<u>18 350</u>	(1)
		78 250	
Trade receivables at 1 April		<u>(17 600)</u>	(1)
		<u>60 650</u>	(1 of)

[4]

(ii)

Purchases		\$	
Trade payments		29 000	
Trade payables at 31 March		<u>7 950</u>	* (1) for both
		36 950	
Trade payables at 1 April		<u>(9 750)</u>	
		<u>27 200</u>	(1 of)

[2]

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(b)

Alif  
Income statement for the year ended 31 March 2016

	\$	\$	
Revenue		60 650	
Opening inventory	12 000		
Purchases	<u>27 200</u>		
	39 200		
Closing inventory	<u>(11 500)</u>		
Cost of sales		<u>27 700</u>	(1of)
Gross profit		32 950	
Plus Other income: Interest receivable		<u>600</u>	(1)
		33 550	
Less			
Rent	(8000 + 500(1) –700(1))	7 800	
Other operating expenses		6 500	
Wages	(9 000 –300(1) +450(1))	9 150	
Depreciation	(11+2.5(1)–10.5(1))	<u>3 000</u>	
		<u>(26 450)</u>	
Profit for the year		<u>7 100</u>	

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(c)

Statement of financial position at 31 March 2016

	\$		\$	
Non-current assets				
Equipment			10 500	(1)
Current Assets				
Inventory	11 500			
Trade receivables	18 350			
Other receivables:	<u>700</u>			
Prepaid rent				
			<u>30 550</u>	(1)
			<u>41 050</u>	
Capital	35 000			
Profit for the year	<u>7 100</u>			
	42 100			
Drawings	<u>(11 500)</u>			
			30 600	(1of)
Current Liabilities				
Trade payables	7 950			
Other payables: Wages	450	(1)		
Bank	3 950 + 40 000 – 46 000	<u>2 050</u>	(2) (1of)	
			<u>10 450</u>	
			<u>41 050</u>	
				[6]
				[Total:20]



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4 (a)

	Workings	Answer	2014
Gross profit/sales percentage	$\frac{300\,000}{750\,000} \times 100 =$ (1) (1)	40% (1of)	37.5%
Return on capital employed (ROCE)	$\frac{100\,000}{250\,000 + 80\,000} \times 100 =$ (1) (1)	30.3% (1of)	20%
Working capital ratio (current ratio)	$\frac{60\,000 + 22\,000 + 1\,500 + 28\,000}{50\,000 + 8\,500}$ (1) (1)	1.9:1 (1of)	2.9:1
Quick ratio (acid test ratio)	$\frac{22\,000 + 1\,500 + 28\,000}{50\,000 + 8\,500}$ (1) (1)	0.9:1 (1of)	0.4:1

[12]

(b) (i) Profitability

The Gross profit to sales has increased in 2015 (1) this may be due to higher selling prices charged (1) or more efficient/bulk buying / purchase costs reduced. (1)  
Expenses have been controlled / reduced. (1)  
The ROCE has increased in 2016. (1)  
The profit for the year has increased (1)  
(1) X 4 points (allow own figure comments)

[4]

(ii) Liquidity

Although the Working capital ratio has reduced (1)  
the liquidity of the business has improved. (1)  
Working capital is below 2:1 the ideal ratio (1)  
Inventory holding of unsold stock has been reduced. (1)  
The quick ratio has improved (1) from a dangerous level / towards 1:1. (1)  
Trade receivables collection has been improved. (1)  
Lache has a positive bank balance to meet expenditure. (1)  
(1) X 4 points (allow own figure comments)

[4]

[Total:20]

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5 (a)

Suria  
Income statement for the year ended 31 March 2016.

	\$	\$
Revenue		287 000
Less Sales returns		<u>(3 150)</u>
		283 850 (1)
Less Inventory 1 April 2015	15 340	(1)
Purchases	<u>143 800</u>	(1)
	159 140	
Less Inventory 31 March 2016	<u>(17 990)</u>	(1)
Cost of sales		<u>(141 150)</u> (1)
Gross profit		142 700 (1)of
Plus other receivables:		
Commission receivable	(4 900 + 1 400)	<u>6 300</u> (1)
		149 000
Less expenses:		
Wages and salaries	26 500	(1)
Computer expenses	(12 200(1) – 8 000 (1))	4 200 (2)
Rent and rates	10 000	(1)
Bank loan interest	(1 500(1) + 900(1))	2 400 (2)
Heat and light	7 300	(1)
Advertising	(12 600 (1) – 3 800 (1))	8 800 (2)
General expenses	11 100	(1)
Depreciation: Leasehold	4 000	(1)
Computers	(6 850 (1) + 2 000 (1))	8 850 (2)
Office furniture	1 550	(1)
Bad debts	1 900	(1)
Increase in PDD (1040) (1)	<u>130</u>	(2)
		<u>(86 730)</u>
Profit for the year		<u>62 270</u>

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(b)

Suria  
Statement of financial position at 31 March 2016

Non-current assets

	Cost	Aggregate depreciation	Book value	
	\$	\$	\$	
Leasehold	100 000	11 000	89 000	(1of)
Computers	52 000	25 450	26 550	(1of)
Office furniture	<u>15 500</u>	<u>13 550</u>	<u>1 950</u>	(1of)
	<u>167 500</u>	<u>50 000</u>	117 500	(1of)

Current assets

Inventory			17 990	(1)
Trade receivables	27 900 (1)– 1 900 (1)	26 000		
Less Provision for doubtful debts	(1of)	<u>(1 040)</u>	24 960	(3)
Other receivables	1 400 (1) + 3 800 (1of)		5 200	(2)
Cash and bank			<u>520</u>	(1)
			<u>48 670</u>	
			<u>166 170</u>	

Financed by:

Capital		70 000		
Profit for the year		<u>62 270</u>		
		132 270		
Less Drawings		<u>(28 000)</u>		(1)
			104 270	
Current liabilities				
Trade payables			18 600	(1)
6% Bank loan			40 000	(1)
Other payables	2 400 (1) + 900 (1of)		<u>3 300</u>	(2)
			<u>61 900</u>	
			<u>166 170</u>	

[16]

[Total:40 marks]