Cambridge Assessment International Education
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/23**

Paper 2 **May/June 2018**

MARK SCHEME

Maximum Mark: 120

Published

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 International will not enter into discussions about these mark schemes.

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This document consists of **14** printed pages.

Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>(i) Sales ledger/Trade receivables ledger (1)
(ii) Sales invoice (1)
(iii) Cheque /Letter or email (if refund made electronically) (1)
(iv) Sales returns journal (1)
(v) Cash discount (1)
(vi) Current assets (1)</td><td>6</td></tr>
<tr><td>1(b)</td><td>$\frac{\$6 \cdot 100}{\$150\ \mathbf{(1)}} = 4\%$ (1)</td><td>2</td></tr>
<tr><td>1(c)(i)</td><td>Drawings account
<table>
<tr><th>Date</th><th>Details</th><th>$</th><th></th><th>Date</th><th>Details</th><th></th><th>$</th><th></th></tr>
<tr><td>April</td><td></td><td></td><td></td><td>April</td><td></td><td></td><td></td><td></td></tr>
<tr><td>1</td><td>Balance b/d</td><td>6400</td><td>(1)</td><td>30</td><td>Capital</td><td>(1)</td><td>7050</td><td>(1)OF</td></tr>
<tr><td>9</td><td>Bank</td><td>500</td><td>(1)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>15</td><td>Insurance/Bank</td><td>150</td><td>(1)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>7050</td><td></td><td></td><td></td><td></td><td>7050</td><td></td></tr>
</table></td><td>5</td></tr>
<tr><td>1(c)(ii)</td><td>Capital account
<table>
<tr><th>Date</th><th>Details</th><th>$</th><th></th><th>Date</th><th>Details</th><th></th><th>$</th><th></th></tr>
<tr><td>April</td><td></td><td></td><td></td><td>April</td><td></td><td></td><td></td><td></td></tr>
<tr><td>30</td><td>Drawings</td><td>7050</td><td>(1)OF</td><td>1</td><td>Balance b/d</td><td></td><td>9000</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>7</td><td>Bank</td><td></td><td>2500</td><td>(1)</td></tr>
<tr><td></td><td>Balance c/d</td><td>8150</td><td></td><td>30</td><td>Income statement</td><td>(1)</td><td>3700</td><td>(1)</td></tr>
<tr><td></td><td></td><td>15200</td><td></td><td></td><td></td><td></td><td>15200</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>May</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>1</td><td>Balance b/d</td><td></td><td>8150</td><td>(1)OF</td></tr>
</table></td><td>5</td></tr>
<tr><td>1(d)</td><td>Bookkeeping is the detailed recording of all the financial transactions of a business. (1)

Accounting uses the book-keeping records to prepare financial statements at regular intervals. (1)</td><td>2</td></tr>
</table>

Question	Answer	Marks
2(a)	Depreciation is an estimate of the loss in value of a non-current asset **(1)** over its expected working life. **(1)**	**2**
2(b)	Physical deterioration/Wear and tear **(1)** Economic reasons/Obsolete **(1)** **Accept other valid points.**	**2**
2(c)	Profit on the sale 14 000 – 5040 – $9500 = $540 profit **(1)**	**1**
2(d)	General Journal (see below)	**6**

General Journal

	Debit		Credit	
	$		$	
Disposal	14 000	**(1)**		
Motor vehicle			14 000	**(1)**
Provision for depreciation – motor vehicle	5 040	**(1)**		
Disposal			5 040	**(1)**
X Garage	9 500	**(1)**		
Disposal			9 500	**(1)**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(e)</td><td>
<table>
<tr><td colspan="4">Depreciation for the year ended 31 March 2018</td></tr>
<tr><td>Cost</td><td>30 000 – 14 000 + 18 000 =</td><td>34 000</td><td>(1)</td></tr>
<tr><td>Less Accumulated depreciation</td><td>10 800 – 5040 =</td><td>5 760</td><td>(1)</td></tr>
<tr><td></td><td></td><td>28 240</td><td>· 20%</td></tr>
<tr><td>Annual depreciation</td><td></td><td>5 648</td><td>(1)OF</td></tr>
<tr><td>OR</td><td></td><td></td><td></td></tr>
<tr><td>Motor A Cost (30 000 – 14 000)</td><td></td><td>16 000</td><td></td></tr>
<tr><td>Depreciation to date (10 800 – 5 040)</td><td></td><td>5 760</td><td>(1)</td></tr>
<tr><td></td><td></td><td>10 240</td><td></td></tr>
<tr><td>Depreciation for year 20% x 10 240</td><td></td><td>2 048</td><td>(1)</td></tr>
<tr><td>Motor C Depreciation for year 20% × 18 000</td><td></td><td>3 600</td><td></td></tr>
<tr><td>Total depreciation for year</td><td></td><td>5 648</td><td>(1)OF</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>2(f)</td><td>
<table>
<tr><th></th><th>capital expenditure</th><th>capital receipt</th><th>revenue expenditure</th><th>revenue receipt</th></tr>
<tr><td>sale of Motor vehicle B</td><td></td><td>✓(1)</td><td></td><td></td></tr>
<tr><td>purchase of Motor vehicle C</td><td>✓(1)</td><td></td><td></td><td></td></tr>
<tr><td>insurance for Motor vehicle C</td><td></td><td></td><td>✓(1)</td><td></td></tr>
</table>
</td><td>3</td></tr>
<tr><td>2(g)</td><td>
<table>
<tr><td>(i)</td><td>Buildings</td><td>Straight-line (1)</td></tr>
<tr><td>(ii)</td><td>Loose tools</td><td>Revaluation (1)</td></tr>
<tr><td>(iii)</td><td>Computers</td><td>Diminishing (reducing) balance (1)</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>3(a)</td><td>
<table>
<tr><td>Assets</td><td>$</td><td></td></tr>
<tr><td>Motor vehicle</td><td>5 000</td><td></td></tr>
<tr><td>Inventory</td><td>8 000</td><td></td></tr>
<tr><td></td><td>13 000</td><td></td></tr>
<tr><td>Less Liabilities</td><td></td><td></td></tr>
<tr><td>5 year bank loan</td><td>(4 000)</td><td>(1)</td></tr>
<tr><td>Capital</td><td>9 000</td><td>(1)</td></tr>
</table>
</td><td>2</td></tr>
</table>

Question	Answer			Marks
3(b)	Komile			**6**
	Statement of Affairs at 31 March 2018			
		$	$	
	Non-current assets			
	Motor vehicle		4 200 **(1)**	
	Current assets			
	Inventory	9 500		
	Trade receivables	11 400		
	Other receivables	600 **(1)**		
	Bank	1 500		
			23 000 **(1)**	
	Total Assets		27 200	
	Capital		11 700 **(1)OF**	
	Non-current liability			
	5 year bank loan		4 000 **(1)**	
	Current liabilities			
	Trade payables	10 100		
	Other payables	1 400		
			11 500	
	Total Capital and Liabilities		27 200	
	Alternative presentation acceptable			
3(c)		$		**3**
	Capital 30 March 2018	11 700 **OF**		
	Capital 1 April 2017	(9 000) **OF**		
		2 700 **(1)OF**		
	Plus Drawings	3 500 **(1)**		
		6 200 **(1)OF**		
	Alternative presentation acceptable			

Question	Answer	Marks
3(d)	Can establish the profit Easier to make decisions Can establish income or expenditure on an activity Can refer to trade receivable or trade payable account for details Any valid point **(1)** · 3 points **Accept other valid points.**	**3**
3(e)	(i) Income tax Social security/national insurance **(1)** For valid statutory deduction (ii) Pension contribution Subscription to trade union or a social club Donation to charity **(1)** For valid non-statutory deduction	**2**

Question	Answer	Marks
3(f)	\$ (i) Gross pay 160 hours · \$6 960 20 hours · \$9 180 5 hours · \$12 60 1 200 **(1)** Less Deductions 220 Net pay 980 **(1)**	**2**
	\$ (ii) Gross pay 1 200 Employer's contributions 150 Total cost 1 350 **(1)OF**	**2**

Question	Answer	Marks
4(a)	1 Prudence/Matching/Accrual **(1)** 2 Historical cost **(1)** 3 Matching/accruals **(1)** 4 Consistency **(1)**	**4**
4(b)(i)	Gross profit 50 000 – 2000 **(1)** – 6000 **(1)** = 42 000 **(1)OF**	**3**
4(b)(ii)	Profit for the year 42 000 **OF** – (14 000 – 1800 + 700) **(1)** – 20 000 **(1)** = 9100 **(1)OF**	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(c)</td><td>
<table>
<tr><th></th><th>Workings</th><th>31 March 2018</th></tr>
<tr><td>Gross profit/sales (Gross profit margin)</td><td>$\frac{42\,000}{120\,000}$ **(1) of** $\cdot$ 100 =</td><td>35.00% **(1)OF**</td></tr>
<tr><td>Profit for the year/sales
(Net profit margin)</td><td>$\frac{9100}{120\,000}$ **(1) of** $\cdot$ 100 =</td><td>7.58% **(1) OF**</td></tr>
<tr><td>Percentage return on capital employed</td><td>$\frac{9100\ \textbf{of} \cdot 100}{(150\,000 + 80\,000)\ \textbf{(1)}}$ =</td><td>3.96% **(1) OF**</td></tr>
</table>
</td><td>**6**</td></tr>
<tr><td>4(d)</td><td>Gross profit/sales

This has improved **(1)** which may be the result of increased prices, decreased cost of sales or change in sales mix. **(1)**

Profit for the year/sales

This has deteriorated **(1)**which may be due to increased expenses. **(1)**

Percentage return on capital employed

This has improved **(1)**because one of the bank loans is no longer long term which has reduced the capital employed. **(1)**

Minimum **(1)** for each ratio.

Own figure rule applies.
Accept other valid points.</td><td>**Max 4**</td></tr>
</table>

Question	Answer	Marks
5(a)	Athula and Bhulo Income Statement and Appropriation Account for the year ended 30 April 2018	**18**

		$	$	
Revenue			590 000	
Returns inwards			(15 800)	
			574 200	**(1)**
Inventory at 1 May 2017		42 000 *		
Purchases		295 000		
Carriage inwards		8 820		**(1)**
		345 820		
Returns outwards		(19 500)		**(1)**
		326 320		
Inventory at 30 April 2018		(51 000)*		**(1)for both**
Cost of sales			(275 320)	**(1)OF**
Gross profit			298 880	
Wages and salaries	(91 000 – 7500)	83 500		**(1)**
Advertising	(30 000 – 1400)	28 600		**(1)**
General expenses		109 000		
Equipment maintenance	(11 800 + 2500)	14 300		**(1)**
Loan interest to Athula		2 000		**(1)**
Bank loan interest	(4000 + 2400)	6 400		**(1)**
Bad debt		4 000		
Increase in provision for doubtful debts		1 300		
Provisions for depreciation –				
Buildings		2 000		**(1)**
Equipment		7 000		**(1)**
Office fixtures		3 300		**(1)**
			(261 400)	
Profit for the year			37 480	
Interest on drawings:				
Athula		960 **(1)**		
Bhulo		560 **(1)**		
			1 520	
			39 000	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>
<table>
<tr><td>Interest on capital:</td><td></td><td></td></tr>
<tr><td>Athula</td><td>3 000</td><td></td></tr>
<tr><td>Bhulo</td><td>2 000</td><td></td></tr>
<tr><td></td><td>5 000 (1)Both</td><td></td></tr>
<tr><td>Partner's salary:</td><td></td><td></td></tr>
<tr><td>Bhulo</td><td>7 500 (1)</td><td></td></tr>
<tr><td></td><td></td><td>12 500</td></tr>
<tr><td></td><td></td><td>26 500</td></tr>
<tr><td>Share of profit:</td><td></td><td></td></tr>
<tr><td>Athula</td><td></td><td>15 900 (1)OF</td></tr>
<tr><td>Bhulo</td><td></td><td>10 600</td></tr>
<tr><td></td><td></td><td>26 500</td></tr>
</table>
</td><td></td></tr>
<tr><td>5(b)</td><td>
Current accounts
<table>
<tr><td></td><td></td><td>Athula</td><td>Bhulo</td><td></td><td></td><td>Athula</td><td>Bhulo</td></tr>
<tr><td>Date</td><td>Details</td><td>$</td><td>$</td><td>Date</td><td>Details</td><td>$</td><td>$</td></tr>
<tr><td>2017</td><td></td><td></td><td></td><td>2017</td><td></td><td></td><td></td></tr>
<tr><td>1 May</td><td>Balance b/d</td><td>3 800</td><td></td><td>1 May</td><td>Balance b/d</td><td></td><td>1 800</td></tr>
<tr><td>2018</td><td></td><td></td><td></td><td>2018</td><td>Loan interest</td><td>2 000 (1)</td><td></td></tr>
<tr><td>30 April</td><td>Drawings</td><td>12 000</td><td>7 000 (1)*</td><td>30 April</td><td>Inter't on cap</td><td>3 000</td><td>2 000 (1)OF*</td></tr>
<tr><td></td><td>Salary drawn</td><td></td><td>7 500 (1)</td><td></td><td>Salary</td><td></td><td>7 500</td></tr>
<tr><td></td><td>Int't on draw'g</td><td>960</td><td>560 (1)OF*</td><td></td><td>Profit share</td><td>15 900</td><td>10 600 (1)OF*</td></tr>
<tr><td></td><td>Balance c/d</td><td>4 140</td><td>6 840</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>20 900</td><td>21 900</td><td></td><td></td><td>20 900</td><td>21 900</td></tr>
<tr><td></td><td></td><td></td><td></td><td>1 May</td><td>Balance b/d</td><td>4 140</td><td>6 840 (1)OF*</td></tr>
</table>
*Mark for both figures
</td><td>7</td></tr>
</table>

Question	Answer	Marks
5(c)	Athula and Bhulo Statement of Financial Position at 30 April 2018	**15**

Non-current assets		Cost	Accumulated depreciation	Book value	
		$	$	$	
Land and buildings		150 000	14 000	136 000	**(1)OF**
Equipment		60 000	32 000	28 000	**(1)OF**
Office fixtures		33 000 **(1)**	20 300	12 700	**(1)OF**
		243 000	66 300	176 700	
Current assets					
Inventory			51 000		**(1)**
Trade receivables	(42 000 – 4000)	38 000			**(1)**
Provision for doubtful debts		(3 400)			
			34 600		**(1)OF**
Other receivables			1 400		**(1)**
Bank	(9 000 **(1)** – 6 000**(1)**)		3 000		
				90 000	
Total Assets				266 700	
Capital accounts					
Athula			60 000		
Bhulo			40 000		
				100 000	
Current accounts:					
Athula			4 140		
Bhulo			6 840		
				10 980	**(1)OF**
Non-current liabilities					
5% Loan from Athula (repayable 2020)					
8% loan (repayable 2024)			40 000		
			80 000		
				120 000	**(1)**

Question	Answer			Marks
	Current liabilities			
	Trade payables	30 820 **(1)**		
	Other payables (2500**(1)** + 2400 **(1)**)	4 900		
			35 720	
	Total Capital and Liabilities		266 700	
	Suitable alternative layouts accepted			