
PRINCIPLES OF ACCOUNTS

7110/22

Paper 2 Structured

October/November 2019

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.

Cambridge International is publishing the mark schemes for the October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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

PUBLISHED**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.

Question	Answer					Marks
1(a)(i)	Running balance (1)					1
1(a)(ii)	Trade receivables/sales ledger (1)					1
1(a)(iii)	Credit note (1)					1
1(a)(iv)	Cash discount (1)					1
1(a)(v)	$\frac{6}{150} \cdot 100 = 4\%$ (1)					1
1(a)(vi)	Statement of account (1)					1
1(b)		Book of prime (original) entry	Account Debited	Account Credited	Effect on capital \$	12
	Sold goods on credit to Win, \$300 (cost \$210)	<i>Sales journal</i>	<i>Win</i>	<i>Sales</i>	+90	
	Paid wages in cash, \$750	Cash book (1)	Wages (1)	Cash (1)	-750 (1)	
	Purchased a new computer system, \$1500, on credit from CW Limited	General journal (1)	Office equipment (1)	CW Limited (1)	0 (1)	
	Goods returned which had been sold on credit to Wendy, \$150 (cost \$80)	Sales returns journal (1)	Sales returns (1)	Wendy (1)	-70 (1)	

Question	Answer	Marks
1(c)	Speed of processing (1) Accuracy/reduction in errors (1) Security of data (1) Reduced storage space required (1) Manage high volume of data (1) Prepares exception reports and reconciliation (1) Automatic trial balance and financial statements (1) Accept other valid points Max 2	2

Question	Answer	Marks
2(a)	1 Original entry (1) 2 Commission (1) 3 Principle (1) 4 Reversal (1)	4

https://xtremepape.rs/

Question	Answer			Marks
2(b)	General Journal			8
		Dr	Cr	
		\$	\$	
	Hannah	300 (1)		
	Purchases		300 (1)	
	Rent payable	450 (1)		
	General expenses		450 (1)	
	Fixtures	800 (1)		
	General expenses		800 (1)	
	Roy	1000 (1)		
	Sales		1000 (1)	

Question	Answer		Marks	
2(c)	Trial Balance at 30 September 2019		8	
		Dr		Cr
		\$		\$
	Revenue			19 000 (1)OF
	Purchases	15 200 (1)OF		
	Capital			1 200 (1)
	Drawings	1 050 (1)		
	General expenses	470		
	Rent payable	650		
	Fixtures (at cost)	1 500 (1)		
	Provision for depreciation of Fixtures			420 (1)
	Trade receivables	2 750		
	Trade payables			1 800
	Balance at bank	200 (1)		
	Inventory 1 October 2018	600 (1)		
	_____	_____		
	<u>22 420</u>	<u>22 420</u>		

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Question	Answer	Marks										
3(a)	Called-up share capital is the total amount requested from the shareholders. (1) Paid-up share capital is that part of the called-up capital for which the company has actually received cash from the shareholders. (1)	2										
3(b)	<table border="1" data-bbox="349 347 1249 676"> <tbody> <tr> <td data-bbox="349 347 801 411">Debentures</td> <td data-bbox="801 347 1249 411">Ordinary shares</td> </tr> <tr> <td data-bbox="349 411 801 475">Long term lenders</td> <td data-bbox="801 411 1249 475">Owners</td> </tr> <tr> <td data-bbox="349 475 801 539">No right to vote</td> <td data-bbox="801 475 1249 539">Right to vote at meetings</td> </tr> <tr> <td data-bbox="349 539 801 603">Fixed rate of interest</td> <td data-bbox="801 539 1249 603">Variable dividend</td> </tr> <tr> <td data-bbox="349 603 801 667">Preferential claim in winding up</td> <td data-bbox="801 603 1249 667">Last call on assets in winding up</td> </tr> </tbody> </table> <p data-bbox="349 715 1075 782">Accept other valid differences (1) debenture + (1) ordinary shares any differences . 3</p>	Debentures	Ordinary shares	Long term lenders	Owners	No right to vote	Right to vote at meetings	Fixed rate of interest	Variable dividend	Preferential claim in winding up	Last call on assets in winding up	6
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3(c)(i)	150 000 + 25 000 + 56 000 = 231 000 (1)	1										
3(c)(ii)	$\frac{3000 + 4500}{150000} \text{ [1]} = 5 (\$0.05) \text{ cents per ordinary share [1]}$	2										
3(d)	Retain cash in the business (1) Fund expansion/future growth (1) Fund future dividends (1) Contingency (1) Improve working capital (1) Accept other valid points Max 1	1										

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3(e)	<p>ABC Limited Extract from the Statement of Financial Position at 31 August 2019.</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: center;">\$</th> <th style="width: 20%; text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Equity and liabilities</td> <td></td> <td></td> </tr> <tr> <td>Ordinary shares</td> <td></td> <td style="text-align: right;">150 000 (1)</td> </tr> <tr> <td>General reserve</td> <td></td> <td style="text-align: right;">45 000 (1)</td> </tr> <tr> <td>Retained earnings</td> <td></td> <td style="text-align: right;"><u>60 500 (1)</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">255 500 (1)OF</td> </tr> <tr> <td>Non-current liabilities</td> <td></td> <td></td> </tr> <tr> <td>5% Debentures</td> <td style="text-align: right;">50 000 (1)</td> <td></td> </tr> <tr> <td>4% Bank loan</td> <td style="text-align: right;"><u>20 000</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">70 000(1)</td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">17 500 }</td> <td></td> </tr> <tr> <td>Other payables</td> <td style="text-align: right;">3 000 } (1)</td> <td></td> </tr> <tr> <td>Bank overdraft</td> <td style="text-align: right;"><u>6 500 }</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>27 000</u></td> </tr> <tr> <td>Total equity and liabilities</td> <td></td> <td style="text-align: right;"><u>352 500 (1)OF</u></td> </tr> </tbody> </table>		\$	\$	Equity and liabilities			Ordinary shares		150 000 (1)	General reserve		45 000 (1)	Retained earnings		<u>60 500 (1)</u>			255 500 (1)OF	Non-current liabilities			5% Debentures	50 000 (1)		4% Bank loan	<u>20 000</u>				70 000(1)	Current liabilities			Trade payables	17 500 }		Other payables	3 000 } (1)		Bank overdraft	<u>6 500 }</u>				<u>27 000</u>	Total equity and liabilities		<u>352 500 (1)OF</u>	8
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Question	Answer			Marks
4(a)	Workings		Answer	6
	Revenue	$65\,000 + 15\,000 = 80\,000$ (gross profit) (1) $80\,000 \cdot \frac{125}{25} = 400\,000$	\$400 000 (1)	
	Percentage of profit for the year to revenue (to two decimal points)	$\frac{15\,000}{400\,000} \cdot 100 =$ (1)OF	3.75% (1)OF	
	Percentage return on capital (to two decimal points) employed	$\frac{15\,000 \cdot 100}{(90\,000 + 40\,000)}$ (1)	11.54% (1)OF	
4(b)	Workings		Answer \$	6
	Cost of sales	36 000 (1) + 212 000 – 28 000 =	220 000 (1)	
	Revenue	220 000 [OF] · $\frac{150}{100}$ [1]	330 000 (1)OF	
	Profit for the year	110 000 (OF) – 60 000 (1) =	50 000 (1)OF	

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Question	Answer	Marks
4(c)	<p>Own figure rule applies</p> <p>Increased the gross profit from \$80 000 to \$110 000 (1)</p> <p>Increased the gross profit to revenue ratio from 20% to $33\frac{1}{3}$ (1)</p> <p>The profit for the year increased/improved (1) from \$15 000 to \$50 000 (1)</p> <p>Profitability has improved (1)</p> <p>The profit for the year to revenue ratio increased (1)</p> <p>The ROCE has increased. (1)</p> <p>The expenses reduced/controlled (1) helping the increase in profit for the year (1)</p> <p>Customers may go elsewhere for cheaper goods (1)</p> <p>Max 4 Accept other valid points.</p>	4
4(d)	<p>Accounting/business entity (1)</p> <p>Materiality (1)</p> <p>Accounting year (1)</p> <p>Historical cost (1)</p>	4

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5(a)	<p style="text-align: center;">B Manufacturing</p> <p>Manufacturing Account for the year ended 30 September 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Raw materials inventory 1 October 2018</td> <td style="text-align: right;">7 900</td> <td></td> </tr> <tr> <td>Purchases of raw material</td> <td style="text-align: right;"><u>47 000</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">54 900</td> <td></td> </tr> <tr> <td>Raw materials inventory 30 September 2019</td> <td style="text-align: right;"><u>(6 400)</u></td> <td></td> </tr> <tr> <td>Cost of raw materials consumed</td> <td></td> <td style="text-align: right;">48 500 (1)</td> </tr> <tr> <td>Factory wages</td> <td></td> <td style="text-align: right;">55 300 (1)</td> </tr> <tr> <td>Direct expenses</td> <td></td> <td style="text-align: right;"><u>10 100 (1)</u></td> </tr> <tr> <td>Prime cost (1)</td> <td></td> <td style="text-align: right;">113 900 (1)OF</td> </tr> <tr> <td>Factory overheads</td> <td></td> <td></td> </tr> <tr> <td>Insurance</td> <td style="text-align: right;">5 400(1)</td> <td></td> </tr> <tr> <td>Rent</td> <td style="text-align: right;">22 500 (1)</td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">1 200 (1)</td> <td></td> </tr> <tr> <td>Building repairs</td> <td style="text-align: right;">12 600 (1)</td> <td></td> </tr> <tr> <td>Production management salaries</td> <td style="text-align: right;">29 500 (1)</td> <td></td> </tr> <tr> <td>Depreciation-machinery</td> <td style="text-align: right;"><u>12 800 (1)</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>84 000</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">197 900 (1)</td> </tr> <tr> <td>Work in progress</td> <td></td> <td></td> </tr> <tr> <td>At 1 October 2018</td> <td style="text-align: right;">18 000</td> <td></td> </tr> <tr> <td>At 30 September 2019</td> <td style="text-align: right;"><u>(20 200)</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(2 200) (1)</u></td> </tr> <tr> <td>Cost of production (1)</td> <td></td> <td style="text-align: right;"><u>195 700 (1)OF</u></td> </tr> </table>		\$	\$	Raw materials inventory 1 October 2018	7 900		Purchases of raw material	<u>47 000</u>			54 900		Raw materials inventory 30 September 2019	<u>(6 400)</u>		Cost of raw materials consumed		48 500 (1)	Factory wages		55 300 (1)	Direct expenses		<u>10 100 (1)</u>	Prime cost (1)		113 900 (1)OF	Factory overheads			Insurance	5 400(1)		Rent	22 500 (1)		General expenses	1 200 (1)		Building repairs	12 600 (1)		Production management salaries	29 500 (1)		Depreciation-machinery	<u>12 800 (1)</u>				<u>84 000</u>			197 900 (1)	Work in progress			At 1 October 2018	18 000		At 30 September 2019	<u>(20 200)</u>				<u>(2 200) (1)</u>	Cost of production (1)		<u>195 700 (1)OF</u>	15
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5(c)	<p style="text-align: center;">B Manufacturing Statement of Financial Position at 30 September 2019</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 20%; text-align: center;">Cost</th> <th style="width: 20%; text-align: center;">Accumulated</th> <th style="width: 25%; text-align: center;">Net book</th> </tr> <tr> <th style="text-align: left;">Non-current assets</th> <th style="text-align: center;">depreciation</th> <th style="text-align: center;">value</th> <th></th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Machinery</td> <td style="text-align: right;">90 000</td> <td style="text-align: right;">38 800</td> <td style="text-align: right;">51 200 (1)OF</td> </tr> <tr> <td>Office fixtures</td> <td style="text-align: right;"><u>70 000</u></td> <td style="text-align: right;"><u>43 000</u></td> <td style="text-align: right;"><u>27 000 (1)OF</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>160 000</u></td> <td style="text-align: right;"><u>81 800</u></td> <td style="text-align: right;">78 200</td> </tr> <tr> <th style="text-align: left;">Current assets</th> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">6 400}</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">20 200}</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>34 300</u>}</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">60 900 (1)</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">42 000</td> <td></td> <td></td> </tr> <tr> <td>Provision for doubtful debts</td> <td style="text-align: right;"><u>(2 100) (1)OF</u></td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">39 900 (1)OF</td> <td></td> </tr> <tr> <td>Other receivables</td> <td style="text-align: right;">1 200 (1) + 750 (1)</td> <td style="text-align: right;">1 950</td> <td></td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">11 100 (1) – 2 800 (1)</td> <td style="text-align: right;"><u>8 300</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>111 050</u></td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td style="text-align: right;"><u>189 250</u></td> </tr> <tr> <td>Capital</td> <td></td> <td style="text-align: right;">160 000</td> <td></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>60 150</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">220 150</td> <td></td> </tr> <tr> <td>Drawings</td> <td></td> <td style="text-align: right;"><u>(50 000)</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">170 150 (1)OF</td> </tr> <tr> <th style="text-align: left;">Current liabilities</th> <td></td> <td></td> <td></td> </tr> <tr> <td>Trade payables</td> <td style="text-align: right;">21 900 (1) – 2 800 (1)</td> <td></td> <td style="text-align: right;"><u>19 100</u></td> </tr> <tr> <td>Total capital and liabilities</td> <td></td> <td></td> <td style="text-align: right;"><u>189 250</u></td> </tr> </tbody> </table>				Cost	Accumulated	Net book	Non-current assets	depreciation	value			\$	\$	\$	Machinery	90 000	38 800	51 200 (1)OF	Office fixtures	<u>70 000</u>	<u>43 000</u>	<u>27 000 (1)OF</u>		<u>160 000</u>	<u>81 800</u>	78 200	Current assets				Inventory		6 400}				20 200}				<u>34 300</u> }				60 900 (1)		Trade receivables	42 000			Provision for doubtful debts	<u>(2 100) (1)OF</u>					39 900 (1)OF		Other receivables	1 200 (1) + 750 (1)	1 950		Bank	11 100 (1) – 2 800 (1)	<u>8 300</u>					<u>111 050</u>	Total assets			<u>189 250</u>	Capital		160 000		Profit for the year		<u>60 150</u>				220 150		Drawings		<u>(50 000)</u>					170 150 (1)OF	Current liabilities				Trade payables	21 900 (1) – 2 800 (1)		<u>19 100</u>	Total capital and liabilities			<u>189 250</u>	12
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