

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
General Certificate of Education Ordinary Level

## **MARK SCHEME for the June 2005 question paper**

### **7110 PRINCIPLES OF ACCOUNTS**

**7110/02 Paper 2 (Structured), maximum raw mark 100**

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June 2005

**GCE O LEVEL**

MARK SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 7110/02

PRINCIPLES OF ACCOUNTS

Paper 2 (Structured)

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1 (a) Purchases Journal

Date	Details	Amount \$
15 May	Gomez Factors Ltd	900 (1)

Purchases Returns Journal

Date	Details	Amount \$
15 May	Kimber & Sons	80 (1)

General Journal

Date	Details	Dr \$	Cr \$
15 May	Delivery truck/Motor vehicles Natsui Ltd Purchase of new delivery truck on credit from Natsui Ltd (1)	20 000 (1)	20 000 (1)

[5]

(b) Gomez Factors Ltd Account

	\$		\$
		15 May	Purchases 900 (1)

Kimber & Sons Account

	\$		\$
15 May	Purchase returns 80 (1)	1 May	Balance b/d 470
15 May	Balance c/d <u>390 (1)</u>		
	<u>470</u>		<u>470</u>
		16 May	Balance b/d 390 (1)of

[5]

Motor Vehicles Account

	\$		\$
15 May	Natsui Ltd	20 000(1)	

[5]

(c) (i) Goods bought on credit  
Invoice (1)

(ii) Return of damaged goods  
Credit note (1)

[2]

**Total marks [12]**

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2 (a) Trial Balance as at 30 April 2005

	Dr	Cr	
	\$	\$	
Fee Income		77 800	
Advertising expenses	12 400		
Heat and light	1 060		
Motor expenses	7 300		
Rent paid	12 800		
Office expenses	12 240		
Motor vehicles	40 000		
Equipment	12 000		
Capital – Asif		18 000	
Capital – Iqbal		12 000	
Drawings – Asif	8 000		
Drawings – Iqbal	<u>2 000</u>		
	<u>107 800 (1)</u>	<u>107 800 (1)</u>	<b>(1 mark for every four correct items entries max 3)</b>

**[5]**

(b) Profit and Loss Account for the year ended 30 April 2005

	\$		\$
Advertising expenses	12 400	Fee Income	77 800 (1)
Heat and light	1 060		
Motor expenses	7 300		
Rent	12 800		
Office expenses	12 240		
Net profit	<u>32 000 (1)</u>		
	<u>77 800</u>		<u>77 800</u>

*Accept vertical presentation*

**[4]**

(c) Appropriation Account for the year ended 30 April 2005

	\$		\$
Share of profit		Net profit	32 000 (1) of
Asif 6/10	19 200 (1) of		
Iqbal 4/10	<u>12 800 (1) of</u>		
	<u>32 000</u>		<u>32 000</u>

(N.B. Award own figures only if no alien items present)

*Accept vertical presentation*

**[3]**

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<b>(d)</b>	<u>Asif Capital Account</u>			
	\$			\$
Drawings	8 000 (1)	Balance b/d		18 000 (1)
Balance c/d	<u>29 200 (1) of</u>	Share of profit		<u>19 200 (1) of</u>
	<u>37 200</u>			<u>37 200</u>
		Balance b/d		17 200
	<u>Iqbal Capital Account</u>			
	\$			\$
Drawings	2 000 (1)	Balance b/d		12 000 (1)
Balance c/d	<u>22 800 (1) of</u>	Share of profit		<u>12 800 (1) of</u>
	<u>24 800</u>			<u>24 800</u>
		Balance b/d		14 800

(N.B. Award own figures only if no alien items present)

*Accept vertical presentation*

[8]

[Total 20]

**3 (a)** Total sales for the year ended 30 April 2005

	\$
Receipts from trade debtors	120 000 (1)
Add: debtors' control account 30 April 2005	<u>48 000 (1)</u>
	168 000
Less: debtors' control account 1 May 2004	<u>(24 000) (1)</u>
	144 000
Receipts from cash sales	18 000 (1)
Add: bad debts written off	4 000 (1)
Add: discounts allowed	<u>6 000 (1)</u>
	<u>172 000 (1)</u>

*Accept alternative presentation*

[7]

**(b)** Control accounts provide totals of debtors and creditors.

Mary can see at a glance how much she owes

or

She can also see immediately how much is owed to her.

This helps her control the total levels of credit.

Control accounts are used to help in the construction of final accounts where accounts are not kept under full double entry.

**Any 2 x 2 mark**

[4]

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- (c) It is difficult to use control accounts to locate errors in Mary's accounts because of the lack of double entry  
or  
Control accounts are of limited use in Mary's business because of the lack of double entry.

Control accounts cannot act as a deterrent against fraud unless internal checks can be carried out.

Cannot check individual debtors and creditors balances.

In Mary's case, the control accounts do not provide a check because ledgers cannot be checked against the total figures from the books of prime entry.

**Any 2 x 2 mark**  
**1 for identification**  
**1 for development**

[max 4]

[Total 15]

- 4 (a) (i) Prime cost

	\$	
Direct material	146 300	(1)
Direct labour	<u>175 400</u>	(1)
Prime cost	321 700	(1)

[3]

- (ii) Factory cost of production

	\$	
Prime cost	321 700	(1)
Factory overheads	83 800	(1)
Change in work in progress	<u>---</u>	
Factory cost of production	<u>405 500</u>	(1)

[3]

- (b) Direct costs can be specifically traced to a manufactured item. (1)  
Indirect costs cannot be traced to a manufactured item. (1)  
Direct costs are included in prime cost. (1)  
Indirect costs are included in factory overhead expenses. (1)

[4]

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**(c) (i) Going Concern**

The directors of Carter Ltd use the going concern principle because they expect the business to continue for the foreseeable future.

This means that stock should be valued to reflect its normal use in the business and not the need to sell it immediately at auction.

Going concern value maybe higher or lower as work in progress may require finishing, incurring additional cost.

**Any 2 x 2 mark**  
**1 for identification**  
**1 for development**

**[max 4]**

**(ii) Prudence (Conservatism)**

Used to avoid overstating stock value.

Stock is recorded at cost or net realisable value, whichever is lower.

Net realisable value allows for the need for additional work on work in progress to make it of practical value.

A prudent approach avoids overstating profits.

A prudent valuation will reflect any work in manufacturing and work done on the raw materials converting them to work in progress.

Using the same principles year to year allows for better comparison.

**Any 2 x 2 mark**  
**1 for identification**  
**1 for development**

**[max 4]**

**[Total 18]**

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5 (a) Trading and Profit and Loss Accounts  
for the year ended 30 April 2005 (1)

	\$		\$
Stock at 1 May 2004	13 350(1)	Sales	196 300 (1)
Purchases	<u>83 500(1)</u>		
	96 850		
Less: stock at 30 April 2005	<u>12 600(1)</u>		
Costs of goods sold	84 250		
Gross profit c/d	<u>112 050</u>		
	<u>196 300</u>		<u>196 300</u>
Wages and salaries [66 400 (1) + 5 500 (1)]	71 900	Gross profit b/d	112 050 (1) of
Rent and rates paid [9 900 (1) – 900 (1)]	9 000	Discount received	1 400 (1)
General expenses	21 100(1)		
Provision for depreciation of fixtures and fittings (20% x 12 200)	2 440(2)		
Provision for doubtful debts (3% x 16 300)	489(2)		
Bank charges	120(1)		
Net profit	<u>8 401</u>		
	<u>113 450</u>		<u>113 450</u>

Accept any recognisable layout

[17]

(b) Balance Sheet as at 30 April 2005 (1)

	Cost \$	Depr'n \$	NBV \$		\$
<b>Fixed Assets (1)</b>					
Fixtures and fittings	12 200 (1)	9 760(1 of)	2 440	Capital, 1 May 2004	25 000(1)
				Net profit	8 401(1) of
					33 401
<b>Current Assets (1)</b>					
Stock		12 600 (1)		Less: drawings	13 100(1)
Debtors	16 300 (1)			Capital,	
Less: provision for doubtful debts	489 (1 of)	15 811		30 April 2005	20 301 (1) of
Cash at bank				<b>Current Liabilities (1)</b>	
[970 (1) – 120 (1)]		850		Creditors	6 800 (1)
Prepayment		<u>900 (1)</u>		Accrual	<u>5 500 (1)</u>
			<u>30 161</u>		<u>12 300</u>
			<u>32 601</u>		<u>32 601</u>

Disallow section heading marks if alien in section

[18]

[Total 35]