

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE O Level

MARK SCHEME for the May/June 2006 question paper

7110 PRINCIPLES OF ACCOUNTS

7110/02

Paper 2

maximum raw mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

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Page 2	Mark Scheme	Syllabus	Paper
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1 (a)

		<u>Kylie Johnson</u>					
		<u>Cash Book (bank columns)</u>				Cr	
Dr		\$		2006		\$	
April 30	Balance b/d	460		April 30	Bank charges	50	(1)
April 30	Nancy Tan	80	(1)	April 30	Insurance	32	(1)
		<u>540</u>		April 30	Balance c/d	<u>458</u>	(1)
May 1	Balance b/d	458	(1 of)			<u>540</u>	

+ 1 for dates including year [6]

(b)

		<u>Kylie Johnson</u>			
		<u>Bank Reconciliation Statement as at 30 April 2006</u>			
		\$		\$	
	Balance as per cash book (1)			458	(1 of)
<i>Add:</i>	unpresented cheque	140	(1)		
	unrecorded transfer	<u>125</u>	(1)	<u>265</u>	
				723	
<i>Less:</i>	uncredited deposit			400	(1)
	Balance as per bank statement (1)			<u>323</u>	(1)

Allow alternative format [7]

(c) (i) A bank overdraft is recorded as a credit balance (1) in the bank account. (1) [2]

(ii) Recorded as a debit balance (1) on a loan account. (1)
The bank/cash account would be credited with the amount paid to Kylie. (1) [max 2]

[Total marks for Question 1: 17]

Page 3	Mark Scheme	Syllabus	Paper
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2 (a)

		<u>Sands Social Club</u>			
		<u>Subscriptions account</u>			
Dr		\$		Cr	\$
2005				2005	
May 1	Balance b/d	150	(1)	May 1	Balance b/d
2006				2005-2006	
April 30	Balance c/d	75	(1)	various	Bank
April 30	I & E Account	1610	(1)		
		<u>1835</u>			
					<u>1835</u>
				2006	
				May 1	Balance b/d
					75

Accept three-column format including headings Debit and Credit and opening and closing balances. [5]

(b) Profit made on sale of refreshments

	\$	\$
Sales		4620
Opening stock	270	
Purchases	<u>3250</u>	
	3520	
Closing stock	<u>330</u>	3190
Profit on sale of refreshments		<u>1430</u> (2)

Accept any presentation [2]

(c) Receipts and Payments Account for the year ended 30 April 2006

	\$		\$
Balance b/d	790	Purchase of refreshments	3250 (1)
Subscriptions	1625 (1 of)	Rent	1200 (1)
Sale of refreshments	4620 (1)	Insurance	240 (1)
		Sundry expenses	1505 (2)/(1 of)
		Balance c/d	<u>840</u>
	<u>7035</u>		<u>7035</u>
Balance b/d	840		

(NB. Award own figure only if no alien items present) [7]

(d) The subscriptions figure in the Receipts and Payments Account represents the total amount received for subscriptions in the period (1) for the current and other periods. (1)

It is the cash amount received during the year. (1) [max 2]

The subscriptions figure in the Income and Expenditure Account represents subscriptions for the year covered by the account. (1)

The subscriptions are matched to the year of membership. (1)

Members can pay for the year and also in arrears and advance. (1) [max 2]

[Total marks for Question 2: 18]

Page 4	Mark Scheme	Syllabus	Paper
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- 3 (a) Depreciation for the year
 $44\,000 \times 25\% = 11\,000$ (2) [2]

(b) (i) Statement of Affairs as at 1 May 2005

	\$		\$
Fixed assets	36 000	Capital	22 000 (2)/(1 of)
Less: depreciation	18 000	Long-term liabilities	2 000 (1)
	<u>18 000 (1)</u>		
Current assets	16 000	Current liabilities	10 000
	<u>34 000</u>		<u>34 000</u>

[4]

(ii) Statement of affairs as at 30 April 2006

	\$		\$
Fixed assets	44 000	Capital	17 000 (2)/(1 of)
Less: depreciation	29 000	Long-term liabilities	4 000 (1)
	<u>15 000 (1 of)</u>		
Current assets	15 000	Current liabilities	9 000
	<u>30 000</u>		<u>30 000</u>

(NB. Award own figure only if no alien items present) [4]

(c) Calculation of profit for the year ended 30 April 2006

	\$
Opening capital	22 000 (1 of)
Profit for the year	3 000 (1 of) <i>if no aliens included</i>
	<u>25 000</u>
Less: drawings	8 000 (1)
Closing capital	<u>17 000 (1 of)</u>

Accept alternative presentation [4]

- (d) (i) Working capital at 1 May 2005
 Current assets \$16 000 – Current liabilities \$10 000 = \$6000 (1) [1]

Working capital at 30 April 2006
 Current assets \$15 000 – Current liabilities \$9000 = \$6000 (1) [1]

- (ii) Working capital:
 The working capital is the same at each date. (1)
 This is despite the fact current assets and current liabilities are less at 30 April 2006. (1) [2]

Long-term funding:
 Long term liabilities have increased in the year. (1)
 The owner has withdrawn \$8000 (1) an amount in excess of the profit earned for the year. (1)
 This reduces the funds for reinvestment in the business. (1)
 New capital/loans will be needed to replace fixed assets. (1) [max 3]

Fixed assets:
 The cost of fixed assets has increased by \$8000. (1)
 Depreciation of fixed assets has increased significantly. (1)
 This is financed by the increased loan (1) and retained funds. (1)
 Most of the fixed assets will be fully depreciated in another year. (1)
 The business has insufficient funds to replace the fixed assets. (1) [max 4]

[Total marks for Question 3: 25]

4 (a)		\$	Revenue income	Revenue expenditure	Capital expenditure	
	Wages	18 600		√ (1)		
	Fixtures and fittings	24 500			√ (1)	
	Investment income	900	√ (1)			[3]

(b) Profits would be increased (1) by \$42 000. (1)

[2]

[Total marks for Question 4: 5]

5 (a) Wall and Fence
Trading and Profit and Loss Account and Appropriation Account
for the year ended 30 April 2006

	\$		\$
Opening stock	9 600 (1)	Sales	264 300 (1)
Purchases	<u>121 200 (1)</u>		
	130 800		
Less: closing stock	<u>10 100 (1)</u>		
Cost of goods sold	120 700		
Gross profit c/d	<u>143 600</u>		
	<u>264 300</u>		<u>264 300</u>
Rent, rates and insurance	14 600 (1)	Gross profit b/d	143 600 (1 of)
Wages and salaries			
[43 700 (1) + 3700 (1)]	47 400		
Motor expenses	22 900 (1)		
Provision for doubtful debts	580 (1)		
Provision for depreciation:			
motor vehicles	11 520 (2)		
Net profit c/d	<u>46 600</u>		
	<u>143 600</u>		<u>143 600</u>
Partnership salary – Fence	10 600 (1)	Net profit b/d	46 600 (1 of)
Interest on capital – Wall	4 000 (1)		
Interest on capital – Fence	2 000 (1)		
Share of profit:			
Wall	20 000 (1 of)	<i>if no alien items</i>	
Fence	<u>10 000 (1 of)</u>	<i>and in correct</i>	
	<u>46 600</u>	<i>proportions</i>	<u>46 600</u>

Accept any recognisable layout

[18]

(b)

Balance Sheet as at 30 April 2006

Fixed Assets	Cost \$	Accumulated Depreciation \$	NBV \$		Wall \$	Fence \$	\$
Land and buildings	110 600	-	110 600(1)	Capital Accounts	<u>80 000</u>	<u>40 000</u>	120 000
Motor vehicles	<u>48 000</u>	<u>30 720 (1 of)</u>	<u>17 280(1 of)</u>				
	<u>158 600</u>	<u>30 720</u>	127 880	Current Accounts			
Current Assets				Balance as at 1 May 2005	12 600	13 300	
Stock		10 100 (1)		Interest on capital	4 000 (1 of)	2 000 (1 of)	
Debtors	29 000 (1)			Partnership salary	-	10 600 (1)	
Less: provision for doubtful debts	<u>580 (1 of)</u>	28 420		Share of profits	<u>20 000 (1 of)</u>	<u>10 000 (1 of)</u>	
Bank		<u>9 400 (1)</u>	47 920	Less: drawings	<u>36 600</u>	<u>35 900</u>	
				Balance as at 30 April 2006	<u>23 800</u>	<u>19 600</u>	<u>43 400</u>
							163 400
				Current Liabilities			
				Creditors		8 700 (1)	
				Accrued wages and salaries		<u>3 700 (1)</u>	<u>12 400</u>
			<u>175 800</u>				<u>175 800</u>

(1) split
between
partners

[17]

Accept any recognisable layout
Accept also current accounts in account form outside the
Balance Sheet providing totals included in the Balance Sheet

[Total marks for Question 5: 35]