

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
GCE Ordinary Level

**MARK SCHEME for the October/November 2006 question paper**

## **7110 PRINCIPLES OF ACCOUNTS**

**7110/02** Paper 2 (Structures), 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 instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

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<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL - OCT/NOV 2006</b>	<b>7110</b>	<b>02</b>

1 (a)

Rent Received account

2006		\$	2006	\$		
30 Sept	Profit and Loss (1)	7860 (1)	23 Sept	Balance b/d	7360 (1)	
30 Sept	Balance c/d	480	29 Sept	Bank	980 (1)	
		<u>8340</u>			<u>8340</u>	
			1 Oct	Balance b/d	480 (1 of)	[4]

(b)

Justine Stihl account

2006		\$	2006	\$		
23 Sept	Balance b/d	180	27 Sept	Bad debts (1)	180 (1)	
		<u>180</u>			<u>180</u>	[2]

(c)

Bad Debts account

2006		\$	2006	\$		
27 Sept	Justine Stihl	180 (1)	30 Sept	Profit and Loss (1)	180 (1)	
		<u>180</u>			<u>180</u>	[3]

- (d) (i) Prudence (1) was used in writing off the bad debt.  
The amount will not reasonably be recovered. (1)  
This avoids overstating profits (1) and asset values. (1)  
**1 for naming concept**  
**1 per point, max 2** [max 3]
- (ii) Matching (1) is used to recognise that the money received for advanced rent should be recorded in the following year's Profit and Loss Account (1) and that the advanced receipt should be shown as a liability (1) in the Balance Sheet. (1)  
**1 for naming concept**  
**1 per point, max 2** [max 3]

Accept other appropriate comment.

**[Total: 15]**

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL - OCT/NOV 2006</b>	<b>7110</b>	<b>02</b>

2 (a)

Nepsa Ltd  
Profit and Loss Appropriation Account for the year ended 30 September 2006

	\$		\$
Transfer to General Reserve	50 000 (1)	Net profit b/d	45 000 (1)
Preference dividends:		Balance b/f	65 700 (1)
10% preference	10 000 (1)		
8% preference	<u>6 400 (1)</u>		
Ordinary dividends:			
Interim	8 000 (1)		
Proposed/final	<u>16 000 (1)</u>		
Balance c/f	<u>20 300 (1 of)</u>		
	<u>110 700</u>		<u>110 700</u>

Marks for figures and detail  
Accept alternative format

[8]

(b) Difference

Preference shares have fixed rate dividends.  
The dividend rate for ordinary shares is determined by the directors.  
Preference dividends are paid before ordinary dividends.

Difference

If no dividend is declared in a year, it may accumulate and be paid in future for preference shares.  
If no dividend is declared in a year, ordinary shareholders will not receive it in future.

Difference

Preference shares are less risky than ordinary shares.  
Ordinary shareholders are the risk bearers.

Difference

Ordinary shareholders have rights to vote.  
Preference shareholders generally have no voting rights.

Difference

Preference shareholders have preferential rights in liquidation.  
Ordinary shareholders are generally paid last, if at all, in liquidation.

**1 mark per point, max 4**

[max 4]

[Total: 12]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL - OCT/NOV 2006</b>	<b>7110</b>	<b>02</b>

3 (a) (i) Cost of sales

$$60\% \times \$100\,000 = \$60\,000 \text{ (2)} \quad [2]$$

(ii) Purchases

	\$		
Opening stock	4 000	(1)	
Purchases	<u>64 000</u>	(1) if no alien items	
	68 000		
Closing stock	<u>8 000</u>	(1)	
Cost of sales	<u>60 000</u>		[3]

(iii) Expenses

Gross profit/sales	\$100 000 x 40% =	40 000	
Expenses		<u>30 000</u>	(1)
Net profit/sales	\$100 000 x 10% =	<u>10 000</u>	(1) [2]

(b) Net profit as a percentage of capital

$$\frac{\text{Net profit}}{\text{Capital}} = \frac{10\,000}{50\,000} \times \frac{100}{1} = 20\% \text{ (2 of)} \quad [2]$$

(c) Rate of stock turnover

$$\frac{\text{Cost of sales}}{\text{Average stock}} = \frac{60\,000 \text{ (1 of)}}{\left(\frac{4000 + 8000}{2}\right) \text{ (1)}} = 10 \text{ times (1 of) if no alien items} \quad [3]$$

(d) The change would affect either the closing stock level, increasing the closing stock (1) or lead to a lower level of purchases (1) or cost of sales. (1) [max 2]

(e) Increase in storage costs (2)

Risk of obsolescence (2)

More money tied up in stock (2)

Risk of theft (2)

Damage in store a possibility (2)

Rejection in liquidity

Accept other appropriate comments [max 4]

**[Total: 18]**

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL - OCT/NOV 2006</b>	<b>7110</b>	<b>02</b>

4 (a) (i) Land does not wear out so there is no need to match cost with use. (2) [max 2]  
Land may go up in value. (2)

(ii) Stock is current asset. It is expected to be used within a year so there is no asset to depreciate over several years. (2) [2]  
Bought for resale.

(b) (i) Loose tools are usually represented by a large number of small value items. They are difficult to track and account for separately.

Loose tools may or may not remain in the business for more than a year. It is cost-effective to value annually as opposed to conventional depreciation.

**1 point x 2 marks** [max 2]

(ii)  $\$5000 + \$1000 - \$4000 = \$2000$  (2) [2]

(c) (i) Buildings

Year ended 31 August 2005 – \$2000 (2)

Year ended 31 August 2006 – \$2000 (1 of) [3]

(ii) Plant and equipment

Year ended 31 August 2005 – \$30 000 (2)

Year ended 31 August 2006

$(\$60\ 000 - \$30\ 000) \times 50\% = \$15\ 000$  (2) [4]

(d) Plant and Equipment Disposal account

	\$		\$	
Plant and equipment	60 000	(1) Bank/cash/debtor	12 000	(1)
		Provision for depreciation/ depreciation	45 000	(1 of)
		Loss/P&L	3 000	(1 of)
	<u>60 000</u>		<u>60 000</u>	

*Marks for figures and detail* [5]

[Total: 20]

<b>Page 6</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL - OCT/NOV 2006</b>	<b>7110</b>	<b>02</b>

5 (a)

Trading and Profit and Loss Accounts  
for the year ended 30 September 2006 (1)

	\$			\$	
Stock at 1 October 2005	13 400	(1)	Sales	306 000	
Purchases	147 600	(1)			
Carriage inwards	12 800	(1)			
	<u>160 400</u>				
Less: drawings	1 300	(1)			
	<u>159 100</u>				
	172 500				
Less: stock at 30 September 2006	14 100	(1)			
Cost of goods sold	158 400	(1)			
Gross profit c/d	147 600				
	<u>306 000</u>			<u>306 000</u>	
Carriage outwards	28 300	(1)	Gross profit b/d	147 600	(1 of)
Wages and salaries					
[51 100 (1) + 1900 (1)]	53 000				
Rent, rates and insurance					
[6900 (1) – 400 (1)]	6 500				
Advertising costs	11 800				
Motor vehicle expenses	2 700				
Office expenses	17 400				
Provision for depreciation of motor vehicles	3 100	(1)			
Increase in provision for doubtful debts	400	(2)			
Interest on loan	150	(2)			
Net profit	24 250	(1)			
	<u>147 600</u>			<u>147 600</u>	

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[19]

(b)

Balance Sheet as at 30 September 2006 (1)

	\$		\$		\$	
Fixed Assets					Capital	35 000 (1)
Motor vehicles at cost		15 500	(1)		Net profit	<u>24 250 (1 of)</u>
Less: provision for depreciation		<u>6 200</u>	(1 of)			59 250
		9300			Drawings	
					[12 320 (1) + 1300 (1)]	<u>13 620</u>
Current Assets						45 630
Stock		14 100	(1)		Long term liability	
Debtors	38 000	(1)			Long term loan	5 000 (1)
Less:					Current Liabilities	15 000 (1)
provision for doubtful debts	<u>760</u>	(1 of)			Creditors	
		37 240			Accrual	1 900 (1)
Cash at bank		7 140	(1)		Interest on loan	<u>150 (1)</u>
Prepayment		400	(1)		Drawings	<u>17 550</u>
		58 880				
		<u>68 180</u>				<u>68 180</u>

Accept alternative format

[16]

[Total: 35]