

**MARK SCHEME for the October/November 2011 question paper
for the guidance of teachers**

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

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Books of Christos
Michelle Account

July 1	Balance b/d	200 (1)	July 16	Sales returns	8 (1)
July 7	Sales	150 (1)	July 31	Bank	195 (1)
				July 31 Discount	5 (1)
				Allowed	
				July 31 Balance c/d	<u>142</u>
				<u>350</u>	<u>350</u>
1 Aug	Balance b/d	142 (1)			

[6]

(b) Sales returns journal (1) [1]

(c) Christos – Trial Balance at 31 July 2011

	\$	\$
Capital		5 900(2of)
Drawings	8 000	
Office furniture	5 000	
Provision for depreciation on office furniture		3 200
Inventory	4 150	
Bank overdraft		250
Trade payables		2 950
Sundry expenses	10 600	
Purchases	32 400	
Provision for doubtful debts		350
Revenue (sales)		53 750
Trade receivables	<u>6 250</u>	
	<u>66 400 (2)</u>	<u>66 400 (2)</u>

[6]

(d) Trade receivables (1) [1]

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(e) Trial balance

Proves arithmetic accuracy of double entry equation

Includes all account balances

Recorded as debit and credit balances and includes revenue items

Recorded in any order

Contains only exact balances

(2) marks x 2 differences

Balance sheet

Proves agreement of the balance sheet

Includes only assets and liabilities

Recorded as assets and liabilities after revenue accounts prepared

Recorded in defined categories e.g. fixed assets

Contains net figures e.g. book value of fixed assets of debtors after provisions

[4]

[Total: 18]

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2 (a) Credit note (1) [1]

(b) Error of commission (1) [1]

(c)

		Dr	Cr	
		\$	\$	
(i)	10 April	M.H Supplies Ltd	180	(1)
		Suspense	180	(1)
(ii)	20 April	M.H Supplies	1200	(1)
		M.Hardware Ltd.	1200	(1)
(iii)	23 April	Suspense	66	(1)
		M.H Supplies Ltd	66	(1)

[6]

(d)

	Suspense account	
	\$	\$
Balance/difference	114 (2)	M.H Supplies Ltd 180 (1)
M.H Supplies	<u>66 (1)</u>	
	<u>180</u>	<u>180</u>

[4]

(e)

		M.H Supplies Ltd adjusted balance at 31 August 2011	
		\$	
	Original balance at 30 April	466	Dr
Plus	Trade discount error	180	(1of)
	Transaction posted to M.Hardware Ltd	<u>1200</u>	(1)
		<u>1380</u>	
		1846	
Less	Error in cash discount posting	<u>66</u>	(1of)
	Corrected balance	1780	(1of)

[4]

(f) Quick processing.
 Accurate.
 Automatic updating of balances.
 Large volume of data can be processed.
 Electronic storage uses less space.
 Security of data may be easier.
 (2) x 2 points [4]

[Total: 20]

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3 (a) Accumulated fund:

Assets	
	\$
Subscriptions in arrears	270 (1)
Inventory of refreshments	2200
Prepaid operating expenses	100
Equipment	3200
Bank	<u>105</u> (1)
	5875 (1)
Liabilities	
Subscriptions in advance	<u>175</u> (1)
Accumulated fund	5700 (2) or (1)OF

[6]

(b) Sandbury Sports Club
Refreshment Trading Account for the year ended 31 October 2011

	\$	\$
Sales of refreshments		25 000 (1)
Opening inventory	2 200	
Purchases	<u>19 000</u>	
	21 200	
Closing inventory	<u>700</u> (1)	
Cost of sales		<u>20 500</u> (1)
Gross profit		<u>4 500</u> (1)

[4]

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(c) Sandbury Sports Club
Income and Expenditure Account for the year ended 31 October 2011

	\$	\$
Income		
Subscriptions (3200 + 175 + 90)		3465 (2)
Profit on refreshments		<u>4500 (1of)</u>
		7965
Less		
Expenditure		
Bad debts	120 (2)	
Rent and rates	1200 (1)	
Operating expenses	4100	
(3750 + 100 (1) – 250 (1))		
Depreciation on equipment	<u>1400 (1)</u>	
		<u>6820</u>
Surplus		<u>1145 (1)</u>

[10]

(d) (i) Current liabilities (1)

They are creditors of the club for services to be provided in the future (1)

(ii) Non-current assets (1)

It is capital expenditure (1)

Used for more than one accounting period

[4]

[Total: 24]

4 (a) (i)

	\$	
Opening inventory	18 000	
Purchases	<u>178 000 (1 of)</u>	
	196 000	
Closing inventory	<u>36 000</u>	
Cost of sales	160 000 (2)	[3]

(ii)

Gross profit	\$160 000 x 25% = 40 000 (1)	
Net profit	\$200 000 x 6% = <u>12 000</u> (1)	
Expenses	28 000 (1)	[3]

(b) (i)

<u>Current assets</u>		= <u>60 000</u> (1) = 1.2:1 (1)
Liabilities due in less than one year	50 000 (1)	[3]

(ii)

<u>Current assets - Inventory</u>		= <u>24 000</u> (1) = 0.5:1 (1)
Liabilities due in less than one year	50 000 (1)	[3]

(c) The quick ratio (acid test) excludes inventory (1)

The inventory may be difficult or take a long time to sell.

Inventory may deteriorate or become obsolete.

Inventory is two stages away from cash.

Debtors is one stage away from cash.

Only liquid assets are included.

(2) x 1 point

[3]

(d) Invest more capital.

Reduce drawings.

Reduce costs/expenses.

Sell surplus non-current assets.

Raise a loan.

Offer cash discount to trade receivables to speed up receipts.

Sell for cash.

(1) x 3 points

[3]

[Total: 18]

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Donney and Raj

Income Statement for the year ended 30 September 2011

	\$	\$
Revenue (sales)		365 000
Less Returns		<u>9 200</u>
		355 800(1)
Inventory at 1 October 2009	53 500	
Purchases	173 000	(1)
Plus Carriage inwards	<u>4 950</u>	(1)
	231 450	
Less Returns	<u>5 500</u>	(1)
	225 950	
Less Inventory at 30 September 2010	<u>61 450</u>	(1)
Cost of sales		<u>164 500</u>
Gross profit		191 300(1)
Less		
Carriage outwards	11 550	(1)
Administration expenses (25 750 – 630)	25 120	(2)
Wages and salaries (66 700 + 2 700)	69 400	(2)
Provisions for depreciation-		
Motor vehicles	10 000	(1)
Fixtures and fittings	7 500	(1)
Sundry expenses	10 250	(1)
Advertising	23 480	(1)
Finance costs (loan interest)(2 000 + 2 000)	4 000	(2)
Bad debt	2 500	(1)
Increase in provision for doubtful debts	<u>400</u>	(1)
		<u>164 200</u>
Profit for the year		27 100
Less Appropriations:		
Interest on capital:		
Donney	6 000	
Raj	<u>4 000</u>	
		<u>10 000 (1)</u>
		17 100
Salary Raj		<u>12 000 (1)</u>
		5 100
Share of profit:		
Donney	3 400	
Raj	<u>1 700</u>	
		<u>5 100(2of)</u>

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Balance Sheet at 30 September 2011

	\$ Cost	\$ Accumulated Depreciation	\$ NBV
<u>Non-current assets</u>			
Property	170 000		170 000
Motor vehicles	75 000	35 000	40 000 (1)OF
Fixtures and fittings	<u>50 000</u>	<u>31 500</u>	<u>18 500 (1)OF</u>
	<u>295 000</u>	<u>66 500</u>	<u>228 500</u>
<u>Current assets</u>			
Inventory		61 450	(1)
Trade receivables	60 000		
Less: provision for doubtful debts	<u>(2 400)</u>		
		57 600	(2)
Other receivables (Prepaid admin expenses)		<u>630</u>	(1)
		<u>119 680</u>	
Less:			
<u>Current liabilities</u>			
Trade payables		(30 500)	(1)
Other payables: (accrued Wages and salaries)		(2 700)	(1)
(loan interest)		(2 000)	(1)
Bank overdraft		<u>(4 380)</u>	(1)
		<u>(39 580)</u>	
Net current assets			<u>80 100(1)</u>
			308 600
Less			
<u>Non-current liabilities</u>			
8% loan repayable 31 December 2025			<u>(50 000)(1)</u>
			<u>258 600</u>
<u>Financed by:</u>			
<u>Capital accounts:</u>			
Donney		150 000	
Raj		<u>100 000</u>	
			250 000 (1)
<u>Current accounts:</u>			
Donney		9 400Cr	
Raj		<u>800Dr</u>	
			<u>8 600 (4)</u>
			<u>258 600</u>

Suitable alternative layouts accepted

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Current accounts					
	Donney \$	Raj \$		Donney \$	Raj \$
Balance b/d		3 500	Balance b/d	15 000	
Drawings	15 000	15 000(1)	Interest on capital	6 000	4 000 (1of)
			Salary		12 000 (1)
			Share of profit	3 400	1 700 (1of)
Balance c/d	<u>9 400</u>		Balance c/d		<u>800</u>
	<u>24 400</u>	<u>18 500</u>		<u>24 400</u>	<u>18 500</u>

[Total: 40 marks]