

# UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

## MARK SCHEME for the November 2005 question paper

### 7110 PRINCIPLES OF ACCOUNTS

7110/02

Paper 2 (Structured)

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*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the November 2005 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



| Page 1 | Mark Scheme                 | Syllabus | Paper |
|--------|-----------------------------|----------|-------|
|        | GCE O Level – November 2005 | 7110     | 2     |

**1**

**(a)**

King Prawn Supplies account

|                          |             |                    |               |
|--------------------------|-------------|--------------------|---------------|
| 2005                     | \$          | 2005               | \$            |
| 2 Sept Bank              | 1026 (1)    | 1 Sept Balance b/d | 1080          |
| 2 Sept Discount received | 54 (1)      | 12 Sept Purchases  | 600 (1)       |
| 15 Sept Purchase returns | 60 (1)      | 23 Sept Purchases  | 300 (1)       |
| 30 Sept Balance c/d      | <u>840</u>  |                    | <u>      </u> |
|                          | <u>1980</u> |                    | <u>1 980</u>  |

1 Oct Balance b/d 840 (1) of

+ 1 for dates

[7]

**(b)**

Purchases account

|                             |                |                         |                      |
|-----------------------------|----------------|-------------------------|----------------------|
| 2005                        | \$             | 2005                    | \$                   |
| 1 Sept Balance b/d          | 27 960         |                         |                      |
| 4 Sept Cash                 | 150 (1)        |                         |                      |
| 12 Sept King Prawn Supplies | 600 (1)        |                         |                      |
| 23 Sept King Prawn Supplies | <u>300 (1)</u> | 30 Sept Trading account | <u>29 010 (1) of</u> |
|                             | <u>29 010</u>  |                         | <u>29 010</u>        |

[4]

**(c)**

Tan's Tours Ltd account

|                    |           |                  |               |
|--------------------|-----------|------------------|---------------|
| 2005               | \$        | 2005             | \$            |
| 1 Sept Balance b/d | <u>40</u> | 7 Sept Bad debts | <u>40 (1)</u> |
|                    | <u>40</u> |                  | <u>40</u>     |

[1]

**(d)**

Stock account

|                         |            |                         |                |
|-------------------------|------------|-------------------------|----------------|
| 2005                    | \$         | 2005                    | \$             |
| 1 Sept Balance b/d      | <u>690</u> | 30 Sept Trading account | <u>690 (1)</u> |
|                         | <u>690</u> |                         | <u>690</u>     |
| 30 Sept Trading account | 130 (1)    |                         |                |

or  
1 Oct

+ 1 for dates

[3]

Total marks [15]

| Page 2 | Mark Scheme                 | Syllabus | Paper |
|--------|-----------------------------|----------|-------|
|        | GCE O Level – November 2005 | 7110     | 2     |

**2 (a)** Statement of Affairs as at 1 October 2004

|                | \$            |                     | \$                |
|----------------|---------------|---------------------|-------------------|
| Fixed assets   | 48 600        | Capital             | 56 000 <b>(2)</b> |
| Current assets | <u>20 300</u> | Current liabilities | <u>12 900</u>     |
|                | <u>68 900</u> |                     | <u>68 900</u>     |

Accept alternative format

[2]

**(b)** Statement of Affairs as at 30 September 2005

|                | \$                |                     | \$                         |
|----------------|-------------------|---------------------|----------------------------|
| Fixed assets   | 39 900 <b>(1)</b> | Opening capital     | 56 000 <b>(1) of</b>       |
| [53 200 – 25%] |                   | Less: Net loss      | <u>4 300</u> <b>(1) of</b> |
| Current assets | 19 400 <b>(1)</b> |                     | 51 700                     |
| (19 600 – 200) |                   | Less: drawings      | <u>13 700</u> <b>(1)</b>   |
|                |                   | Closing capital     | 38 000 <b>(1) of</b>       |
|                |                   | Current liabilities | <u>21 300</u> <b>(1)</b>   |
|                | <u>59 300</u>     |                     | <u>59 300</u>              |

Accept alternative format

[7]

**(c)**

|                             | Increase     | Decrease | No change    |
|-----------------------------|--------------|----------|--------------|
| <b>(ii)</b> Current assets  | √ <b>(1)</b> |          |              |
| <b>(iii)</b> Profit/loss    |              |          | √ <b>(1)</b> |
| <b>(iv)</b> Working capital | √ <b>(1)</b> |          |              |
| <b>(v)</b> Turnover         |              |          | √ <b>(1)</b> |

[4]

Total marks [13]

|               |                                    |                 |              |
|---------------|------------------------------------|-----------------|--------------|
| <b>Page 3</b> | <b>Mark Scheme</b>                 | <b>Syllabus</b> | <b>Paper</b> |
|               | <b>GCE O Level – November 2005</b> | <b>7110</b>     | <b>2</b>     |

**3**

**(a)** Authorised share capital

Authorised share capital is the total capital a company may issue  
 Authorised by the memorandum of association  
 Authorised capital may be amended by a shareholder meeting  
 Also known as registered/nominal share capital

**Any 1 x 2 marks**

[2]

**(b)** Issued share capital

The proportion of authorised share capital issued to shareholders **(2)**

[2]

**(c)** **(i)** Similarity

Both are fixed rate capital  
 No voting rights

**Any 1 x 2 marks**

**(ii)** Difference

Debenture holders are creditors  
 Preference shareholders are not creditors  
 Interest is paid on debentures  
 Dividends are paid to preference shareholders

**Any 1 x 2 marks**

[4]

**(d)** **(i)** Total dividends (in \$) proposed on ordinary shares for the year

$\$20\,000 \times 5\% = \$1000$

**(1) for correct formula + (1) if correct**

**(ii)** Total interest payable on the debentures for the year

$\$10\,000 \times 6\% = \$600$

**(1) for correct formula + (1) if correct**

**(iii)** Total dividends (in \$) payable on preference shares for the year

$40\,000 \times \$0.25 = \$10\,000$

$\$10\,000 \text{ of } \times 5\% = \$500$

**(1) for correct formula + (1) if correct**

[6]

**(e)** **(i)** Fixed assets

Cost less accumulated depreciation **(1)**

**(ii)** Stock

Cost or net realisable value whichever is lower **(1)**

**(ii)** Trade debtors

Debtors less provision **(1)**

[3]

Total marks [17]

| Page 4 | Mark Scheme                 | Syllabus | Paper |
|--------|-----------------------------|----------|-------|
|        | GCE O Level – November 2005 | 7110     | 2     |

4 (a) Branch

$$\text{Gross profit/sales} = \frac{(50\,000 - 30\,000)}{50\,000} \times 100 = 40\%$$

**(1) for correct use of figures + (1) of for ratio**

$$\text{Net profit/sales} = \frac{(50\,000 - 30\,000 - 12\,500)}{50\,000} \times 100 = 15\%$$

**(1) for correct use of figures + (1) of for ratio**

$$\text{Net profit/ capital} = \frac{(50\,000 - 30\,000 - 12\,500)}{37\,500} \times 100 = 20\%$$

**(1) for correct use of figures + (1) of for ratio**

[6]

(b) Bough

$$\begin{aligned} \text{Net profit} \\ \$80\,000 \times \frac{12.5}{100} = \$10\,000 \quad (2) \end{aligned}$$

$$\begin{aligned} \text{Sales} \\ \$10\,000 (1) \text{ of } \times \frac{100}{10} = \$100\,000 (1) \text{ of} \end{aligned}$$

$$\begin{aligned} \text{Gross profit} \\ 50\% \times \$100\,000 (1) \text{ of} = \$50\,000 (1) \text{ of} \end{aligned}$$

[6]

(c) (i) Success in trading (buying and selling)

Bough generates a higher gross profit/sales  
Bough's gross profit is \$30 000 greater than that of Branch  
Bough is more successful  
However, the sales figure for Bough is twice as large as that for Branch

**Any 3 x 1 mark**

[max 3]

(ii) Success in controlling expenses

Bough has spent a higher proportion of sales income on expenses  
Bough's expenses were \$40 000 compared with \$12 500 for Branch  
Branch is more successful  
However, Bough's larger amount spent on expenses may have been more effectively used, generating the higher turnover

**Any 3 x 1 mark**

[max 3]

(iii) Success in employing capital

Branch has generated a higher proportion of net profit on capital  
It has achieved this by controlling its expenses  
It has also generated a higher proportion of sales on its capital  
Branch is more successful

**Any 2 x 1 mark**

[max 2]

*Note: Marks for comments based on own calculations*

Total marks [20]

| Page 5 | Mark Scheme                 | Syllabus | Paper |
|--------|-----------------------------|----------|-------|
|        | GCE O Level – November 2005 | 7110     | 2     |

5 (a)

Trading and Profit and Loss Accounts  
for the year ended 30 September 2005 (1)

|                                              |                  |                    |                |
|----------------------------------------------|------------------|--------------------|----------------|
|                                              | \$               |                    | \$             |
| Stock at 1 October 2004                      | 6 900 (1)        | Sales              | 137 900 (1)    |
| Purchases                                    | 41 200 (1)       |                    |                |
| Carriage inwards                             | <u>9 400 (1)</u> |                    |                |
|                                              | 50 600           |                    |                |
| Less: drawings                               | <u>4 300 (1)</u> |                    |                |
|                                              | 46 300           |                    |                |
|                                              | 53 200           |                    |                |
| Less: stock at 30 September 2005             | <u>7 500 (1)</u> |                    |                |
| Cost of goods sold                           | 45 700           |                    |                |
| Gross profit c/d                             | <u>92 200</u>    |                    |                |
|                                              | 137 900          |                    | <u>137 900</u> |
| Wages and salaries                           |                  | Gross profit b/d   | 92 200 (1) of  |
| [34 700(1) + 6 800(1)]                       | 41 500           | Discounts received | 800 (1) of     |
| Insurance ( $\frac{12}{18} \times 1800$ )    | 1 200 (2)        |                    |                |
| Carriage outwards                            | 1 300 (1)        |                    |                |
| Rent and rates                               | 10 800 (1)       |                    |                |
| Motor vehicle expenses                       | 4 200 (1)        |                    |                |
| General expenses                             | 22 850 (1)       |                    |                |
| Provision for depreciation of motor vehicles |                  |                    |                |
| [(32 000 – 16 000) x 50%]                    | 8 000 (2)        |                    |                |
| Net profit                                   | <u>3 150</u>     |                    |                |
|                                              | 93 000           |                    | <u>93 000</u>  |

Accept alternative format

[19]

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

|                                  |                      |    |                          |                  |
|----------------------------------|----------------------|----|--------------------------|------------------|
|                                  | \$                   | \$ |                          |                  |
| Fixed Assets (1)                 |                      |    | Capital, 1 Oct 2004      | 24 300 (1)       |
| Motor vehicles at cost           | 32 000 (1)           |    | Net profit               | 3 150 (1) of     |
| Less: provision for depreciation | <u>24 000 (1) of</u> |    |                          | 27 450           |
|                                  | 8 000                |    | Drawings                 |                  |
|                                  |                      |    | [17 690 (1) + 4 300 (1)] | <u>21 990</u>    |
| Current Assets (1)               |                      |    | Capital, 30 Sept 2005    | 5 460 (1) of     |
| Stock                            | 7 500 (1)            |    |                          |                  |
| Prepayment                       | <u>600 (1)</u>       |    | Current Liabilities (1)  |                  |
|                                  | 8 100                |    | Trade creditors          | 3 140 (1)        |
|                                  |                      |    | Bank overdraft           | 700 (1)          |
|                                  |                      |    | Accrual                  | <u>6 800 (1)</u> |
|                                  |                      |    |                          | 10 640           |
|                                  | <u>16 100</u>        |    |                          | <u>16 100</u>    |

(NB. Allow marks for section headings (e.g. current assets) providing no alien items are included.)

Accept alternative format

Total marks [16]  
[35]