

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Ordinary Level

MARK SCHEME for the October/November 2012 series

7110 PRINCIPLES OF ACCOUNTS

7110/21

Paper 2 (Structured), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, 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, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

Page 2	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – October/November 2012	7110	21

- 1 (a) The stationery is prepaid by \$60/Asir has a stock of stationery worth \$60. (1) [1]

(b)

Stationery account			
	\$		\$
July 1 Balance b/d	60	Sep 3 Rapid Office	45 (1)
Aug 18 Rapid Office	450 (1)	Sept 30 Income statement	390 (1)
Aug 20 Cash	<u>150</u> (1)	Sept 30 Balance c/d	<u>225</u>
	<u>660</u>		<u>660</u>
Oct 1 Balance b/d	225 (1of)		

Rapid Office Supplies account			
	\$		\$
July 30 Bank	384	July 1 Balance b/d	400
July 30 Discount rec	16 (1)	Aug 18 Stationery	450 (1)
Sept 3 Stationery	45 (1)		
Sept 30 Balance c/d	<u>405</u>		
	<u>850</u>		<u>850</u>
		Oct 1 Balance b/d	405 (1of) [9]

- (c) (i) Invoice (1)
- (ii) Credit note (1) [2]

(d)

	\$
Trial balance	615 (1)
Income statement	390 (1of)
Balance sheet	225 (1of)

[3]

- (e) (i) Current assets (1)
- (ii) Current liabilities (1) [2]

- (f) (i) Asir will match his revenue to his expenses for the period therefore will only transfer the value of stationery that he has used not the value that he has purchased. (2)
- (ii) Accruals/Matching concept (1) [3]

[Total: 20]

Page 3	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – October/November 2012	7110	21

2 (a) (i) Depreciation is the continuing diminution in value of a non-current asset (2) [2]

(ii) Wear and tear
Obsolescence
Depletion
Passage of time
(1) × 2 points [2]

(b) Apportions an equal amount of depreciation to each year of ownership
More appropriate to fixed assets that depreciate by an equal amount each year
(2) × 1 point [2]

(c) (i) Equipment provision for depreciation account

		\$			\$		
Jan 31	Disposal	16 800	(1)	Sept 1	Balance b/d	24 000	(1)
Aug 31	Balance c/d	<u>20 600</u>		Aug 31	Income statement	<u>13 400</u>	(1)
		<u>37 400</u>				<u>37 400</u>	
				Sept 1	Balance b/d	20 600	(1of)

(ii) Equipment disposal account

		\$			\$		
Jan 31	Equipment	28 000	(1)	Jan 31	Provision for deprec'n	16 800	(1)
				Jan 31	Bank	10 000	(1)
		<u>28 000</u>		Aug 31	Income statement	<u>1 200</u>	(1)
						<u>28 000</u>	[8]

(d) Balance sheet (extract) at 31 August 2012

Non-current assets	Cost	Accumulated depreciation	NBV
	\$	\$	\$
Equipment	67 000 (1)	20 600 (1)	46 400 (1of)
Office computer	<u>8 600 (1)</u>	<u>6 350 (1)</u>	<u>2 250 (1of)</u>
	<u>75 600</u>	<u>26 950</u>	48 650 [6]

[Total: 20]

Page 4	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – October/November 2012	7110	21

- 3 (a) Sandar Manufacturing
Manufacturing Account for the year ended 30 September 2012
- | | | | |
|---|---------------------|----------------------|--|
| | \$ | \$ | |
| Opening inventory of raw materials | 17 500 (1) | | |
| Purchases of raw materials | 82 600 (1) | | |
| Carriage on raw materials | <u>7 200 (1)</u> | | |
| | 107 300 | | |
| Closing inventory of raw materials | <u>16 300 (1)</u> | | |
| Cost of raw materials consumed | | 91 000 (1of) | |
| Production wages | 75 000 (1) | | |
| Royalties | <u>9 000 (1)</u> | | |
| | | <u>84 000</u> | |
| PRIME COST | | 175 000 (1of) | |
| Factory overheads: | | | |
| Production manager's salary | 20 500 (1) | | |
| Rent, rates and power | 18 400 (1) | | |
| General factory expenses (15 200 + 400) | 15 600 (1) | | |
| Premises maintenance | 28 000 (1) | | |
| Depreciation on factory machinery | <u>7 500 (1)</u> | | |
| | | 90 000 | |
| Work in progress: | | | |
| At 1 October 2011 | 24 000 (1) | | |
| At 30 September 2012 | <u>(29 000) (1)</u> | | |
| | | <u>(5 000)</u> | |
| PRODUCTION COST | | <u>260 000 (1of)</u> | |
- [16]
- (b) A cost which can be directly linked to the product being manufactured. (2) [2]
- (c) Raw materials
Production wages
Royalties
(2) × 1 point [2]
- [Total: 20]
- 4 (a) (i) Revenue (sales) $\frac{120\,000}{25} \times \frac{125}{25} = \$600\,000$ (3) [3]
- (ii) Net profit/ sales percentage $\frac{48\,000}{600\,000} \times 100 = 8\%$ (3) [3]
- (iii) Net profit / capital percentage $\frac{48\,000}{320\,000} \times 100 = 15\%$ (3) [3]
- (iv) Quick ratio (acid test) $\frac{60\,000}{60\,000} = 1:1$ (3) [3]
- (b) Quick ratio (acid test) does not contain inventory (1)
Inventory may be difficult or take time to sell (1) [2]

Page 5	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – October/November 2012	7110	21

- (c) The cash level is low at \$5 000 and probably insufficient (1)
 Maya has to repay the \$35 000 loan in 1 month (2)
 Any other valid point [3]

- (d) Introduce additional capital
 Raise a long term loan
 Sell surplus non-current assets
 Press trade receivables for swift payment/ offer a cash discount
 Sell some inventory for cash/ hold a sale of some inventory
 Extend trade payables payment period
 Any other valid point

(1) × 3 points [3]

[Total: 20]

5 (a)

Maria

Income Statement for the year ended 30 September 2012

	\$	\$	
Revenue		365 000	
Returns		<u>8 900</u>	
		356 100	(1)
Inventory 1 October 2011	33 500		(1)
Purchases (135 000 + 7 500)	<u>142 500</u>		(2)
	176 000		
Returns	<u>(4 250)</u>		(1)
	171 750		
Inventory 30 September 2012	<u>(36 450)</u>		(1)
Cost of sales		<u>135 300</u>	(1)
Gross profit		220 800	
Plus			
Discount received	7 300		(1)
Decrease in Provision for doubtful debts	<u>3 400</u>		(2)
		<u>10 700</u>	
		231 500	
Less			
Loan interest (2 000 + 1 000)	3 000		(1)
Distribution expenses	18 630		(1)
Computer repairs (19 150 + 1 700)	20 850		(1)
General running expenses (31 600 – 4 000)	27 600		(1)
Salaries and wages (86 700 – 5 200)	81 500		(1)
Marketing costs	14 000		(1)
Discount allowed	22 400		(1)
Depreciation:			
Buildings	2 000		(1)
Fixtures	4 800		(2)
Computers	<u>7 000</u>		(1)
		<u>(201 780)</u>	
Profit for the year		<u>29 720</u>	(1of) [22]

Page 6	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – October/November 2012	7110	21

Balance Sheet at 30 September 2012

	Cost	Accumulated Depreciation	NBV	
<u>Non current assets</u>	\$	\$	\$	
Land and buildings	150 000	12 000	138 000	(2)
Fixtures and fittings	32 000	23 800	8 200	(2of)
Computer equipment	40 000	19 000	21 000	(1of)
	<u>222 000</u>	<u>54 800</u>	167 200	
<u>Current assets</u>				
Inventory		36 450		(1)
Trade receivables	60 000			
Less Provision for doubtful debts	<u>3 000</u>			
		57 000		(2)
Other receivables		5 200		(1)
Bank		<u>14 070</u>		(1)
		112 720		
Less				
<u>Current liabilities</u>				
Trade payables (31 000 + 7 500)		38 500		(2)
Other payables (1 700 + 1 000)		<u>2 700</u>		(2)
		(41 200)		
Net current assets			<u>71 520</u>	(1of)
			238 720	
<u>Non current liabilities</u>				
8% Bank loan			<u>(50 000)</u>	(1)
			<u>188 720</u>	
Financed by:				
Capital at 1 October 2011			180 000	
Profit for the year			<u>29 720</u>	(1of)
			209 720	
Drawings			<u>(21 000)</u>	
			<u>188 720</u>	(1of) [18]
				[Total: 40]