

## MARK SCHEME for the May/June 2008 question paper

### **7110 PRINCIPLES OF ACCOUNTS**

**7110/02**

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.

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.

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

CIE is publishing the mark schemes for the May/June 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.



<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL – May/June 2008</b>	<b>7110</b>	<b>02</b>

1 (a)

George Gale  
Cash book

2008		Disc \$	Cash \$	Bank \$		2008		Disc \$	Cash \$	Bank \$	
May 25	Balance b/d		80	1640	(2)	May 25	Bank		80	(1)	
May 25	Cash			80	(1)	May 26	Drawings			860	(1)
May 27	Sales		900		(1)	May 29	Fixtures and fittings			3500	(1)
May 27	Sally Jones	50	(1)	450	(1)	May 30	Bank deposit		600	(1)	
May 28	Bank loan			2000	(1)	May 31	Wages		100	(1)	
May 31	Balance c/d			190	(1)	May 31	Balance c/d		200	(1)	
		<u>50</u>	<u>980</u>	<u>4360</u>					<u>980</u>	<u>4360</u>	
1 June	Balance b/d		200		(1 of)	1 June	Balance b/d			190	(1 of)

[16]

(b) A cash discount is allowed/received reducing the amount owed by debtors/to creditors for settling a sale/purchase on credit before an agreed date (1)

A trade discount is an amount deducted from cost for bulk purchase/trade custom (1)

[2]

(c) Bank – Liability (1 of)

Cash – Asset (1)

Bank deposit account – Asset (1)

Bank loan – Liability (1)

[4]

[Total: 22]

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL – May/June 2008</b>	<b>7110</b>	<b>02</b>

2 (a) Capital expenditure – long-term (1) on fixed assets (1) adding to value of fixed assets (1) Not bought for resale (1)  
Revenue expenditure – short-term (1) on current assets (1) or day to day expenses (1)  
(Max 2 marks for capital expenditure and 2 for revenue expenditure)  
(N.B. Do not accept examples.) [max 4]

(b) Capital expenditure – Factory OR motor vehicle (1)  
Revenue expenditure – Wages/components (parts) (1)  
Accept other reasonable examples [2]

(c) Cost less accumulated depreciation (1)  
At valuation (1) At cost (1) At net book value (1) [max 1]

(d) (i) Reduction in value of fixed assets due to wear and tear. (1)  
An estimated cost/expense  
(N.B. Accept other appropriate reasons for diminution of value)  
The matching of asset cost to a business to period used. (1) [max 1]

(ii)  $(\$8000 - \$7000) (1) \times 50\% = \$500 (1 \text{ of})$  [2]

(iii)		Dr	Cr	
	Profit and loss account	\$500 (1 of)		
	Provision for depreciation of motor vehicle		\$500 (1 of)	[2]

(iv) Disposal account – delivery vehicle

	\$		\$	
Motor vehicle	8000 (1)	Provision for depreciation	7500 (1of)	
		Cash/bank/debtor	400 (1)	
		Profit and loss	100 (1of)	
	<u>8000</u>		<u>8000</u>	[4]

[Total 16]

Page 4	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – May/June 2008	7110	02

<b>3 (a) (i)</b>	Gross profit/sales	$\frac{115\,000}{240\,000} \times 100$	= 47.9%	<b>(2)</b>	
<b>(ii)</b>	Net profit/sales	$\frac{30\,000}{240\,000} \times 100$	= 12.5 %	<b>(2)</b>	
<b>(iii)</b>	Net profit/opening capital	$\frac{30\,000\ (1)}{260\,000\ (1) + 40\,000\ (1) - 30\,000\ (1)}$	= 1.1%	<b>(1 of)</b>	
<b>(iv)</b>	Working capital ratio (current ratio)	60 000 : 30 000	= 2:1	<b>(2)</b>	
<b>(v)</b>	Quick ratio (acid test)	(60 000 – 20 000) : 30 000	= 1.3:1	<b>(2)</b>	
<b>(vi)</b>	Rate of stock turnover	$\frac{125}{(20 + 10)/2}$	= 8.3 times	<b>(2)</b>	[15]
<b>(b) (i)</b>	Rate of stock turnover	$\frac{127}{(18 + 10)/2}$	= 9.1 times	<b>(2)</b>	[2]
<b>(ii)</b>	Working capital	(60 000 – 2 000) <b>(1)</b> – 30 000 <b>(1)</b>	= 28 000	<b>(1 of)</b>	[3]
<b>(c) (i)</b>	Profits are needed for reinvestment <b>(1)</b> Profits are needed to generate income for Ahmed <b>(1)</b> Adequate liquidity is needed so debts can be paid on time <b>(1)</b> Profitability/liquidity is needed for business to continue <b>(1)</b> <i>Accept reasonable alternatives</i>				[max 3]
<b>(ii)</b>	The business achieves good rates of profitability <b>(1)</b> There is sufficient liquidity to pay debts when due <b>(1)</b> Stock is turned over every one and a half months which, depending on type of stock, should limit wastage/obsolescence <b>(1)</b> By withdrawing 40 000 Abdul has decreased capital by 10 000 <b>(1)</b> <i>Accept reasonable alternatives</i>				[max 3]
					<b>[Total: 26]</b>

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL – May/June 2008</b>	<b>7110</b>	<b>02</b>

- 4 (a)** Bookkeeping is the process of recording data **(1)**  
OR  
Bookkeeping involves preparing accounts from source documents or prime entry records **(3)**  
  
Accounting involves identifying, measuring and communicating financial information **(2)**  
OR  
Accounting provides information for decision making **(2)** [max 4]
- (b)** A trading business is involved with buying and selling goods. **(2)**  
  
A service business provides services/which benefits others **(2)**  
(Accept examples which are appropriate) [4]
- (c)** Four benefits  
Accuracy **(1)**  
Speed of processing information **(1)**  
Ability to process high volumes **(1)**  
Ease of performing reconciliations **(1)**  
Large amounts of data can be stored **(1)**  
Improved security **(1)**  
Access to more customers possible (Internet/email) **(1)**  
Software minimises staff requirements for Julie Carter **(1)** [max 4]
- (d) (i)** Clients would consider Julie Carter trustworthy **(1)** not sharing commercial information. **(1)**  
  
Clients would assume she will act competently **(1)** so accounts would be correct. **(1)**  
  
Clients would accept that any advice given by Julie Carter would be for the clients' best interests **(1)** and not Julie's. **(1)**  
  
Clients would expect any decisions taken by Julie Carter in running her business would not be damaging to them. **(2)**  
*Allow other acceptable reasons* [max 4]

**[Total: 16]**

Page 6	Mark Scheme	Syllabus	Paper
	GCE O LEVEL – May/June 2008	7110	02

5 (a)

East and West  
Trading, Profit and Loss and Appropriation Account  
for the year ended 31 May 2008 (1)

	\$			\$	
Opening stock		15 200	(1)	Sales	411 320
Purchases	207 620			Less: returns	<u>7 340</u>
Less: returns	(1 470)	(1)			<u>403 980</u> (1)
Add: carriage	2 160	(1)			
		<u>208 310</u>			
		223 510			
Closing stock		<u>16 100</u>			
Cost of goods sold		207 410	(1)		
Gross profit c/d		<u>196 570</u>			
		<u>403 980</u>			<u>403 980</u>
Wages and salaries (93 700 (1) + 7835 (1))		101 535		Gross profit b/d	196 570 (1 of)
Motor expenses (14 600 (1) – 800 (1))		13 800			
Repairs		2 000	(1)		
General expenses		41 640			
Provision for depreciation – fixtures and fittings [20% × (38 000 – 3000)]		7 000	(1)		
Provision for depreciation – motor vehicles [50% × (21 000 – 15 750)]		2 625	(1)		
Provision for doubtful debts (2% × 38 500)		770	(1)		
Net profit c/d		<u>27 200</u>			
		<u>196 570</u>			<u>196 570</u>
Partnership salary – West	3 500	(1)		Net profit b/d	<u>27 200</u>
Interest on capital – East	3 000	(1)			(1 of)
– West	<u>1 500</u>	(1)	4 500		
Share of profit – East	12 800	(1 of)			
– West	<u>6 400</u>	(1 of)	<u>19 200</u>		
		<u>27 200</u>			<u>27 200</u>

*Marks for share of profits if no alien items and in correct proportion.  
Accept any recognisable layout.*

[21]

<b>Page 7</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL – May/June 2008</b>	<b>7110</b>	<b>02</b>

(b)

East and West  
Balance Sheet as at 31 May 2008

	Cost	Accumulated Depreciation	NBV		East	West	
<u>Fixed assets</u>				Capital	<u>60 000</u>	<u>30 000</u>	(1 for both) 90 000
Land and buildings	70 000	---	70 000 (1)	Current account			
Fixtures and fittings	38 000	21 000 (1 of)	17 000 (1)	Opening balance	10 600	6 900	
Motor vehicles	<u>21 000</u>	<u>18 375 (1 of)</u>	<u>2 625 (1)</u>	Partnership salary		3 500 (1)	
	<u>129 000</u>	<u>39 375</u>	89 625	Interest on capital	3 000 (1)	1 500 (1)	
<u>Current assets</u>				Share of profit	<u>12 800 (1 of)</u>	<u>6 400 (1 of)</u>	<u>28 600</u>
Stock				Drawings	<u>26 400</u>	<u>18 300</u>	118 600
Debtors					<u>9 050 (1)</u>	<u>7 050 (1)</u>	
Prov'n for doubtful debts	38 500	16 100			<u>17 350 (1 of)</u>	<u>11 250 (1 of)</u>	
Cash at bank				<u>Current liabilities</u>			
Prepaid motor expenses	<u>770</u>	37 730 (1 of)		Creditors		19 240 (1)	
		1 420 (1)		Accrued wages and salaries		<u>7 835 (1)</u>	27 075
		<u>800</u>	<u>56 050</u>				<u>145 675</u>
			<u>145 675</u>				

Accept any recognisable layout

[19]

[Total: 40]

<b>Page 8</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE O LEVEL – May/June 2008</b>	<b>7110</b>	<b>02</b>