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**PRINCIPLES OF ACCOUNTS**

**7110/21**

Paper 2 Structured

**October/November 2016**

MARK SCHEME

Maximum Mark: 120

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**Published**

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1 (a)

Kacela account							
Date	Details	\$		Date	Details	\$	
2016				2016			
Sept 1	Balance b/d	900	(1)	Sept 14	Sales returns	25	(1)
Sept 9	Sales	730	(1)	Sept 30	Bank	860	(1)
					Discount allowed	40	(1)
					Balance c/d	<u>705</u>	
		<u>1630</u>				<u>1630</u>	
Oct 1	Balance b/d	705	(1)of				

[6]

(b) Sales ledger/Trade receivables/Debtors ledger (1)

[1]

(c)

Bank account							
Date	Details	\$		Date	Details	\$	
2016				2016			
Sept 30	Balance b/d	450		Sept 30	Bank charges	230	(1)
	Dividend	<u>120</u>	(1)		Balance c/d	<u>340</u>	
		<u>570</u>				<u>570</u>	
Oct 1	Balance b/d	340	(1)of				

[3]

(d)

Bank Reconciliation Statement at 30 September 2016			
	\$		
Balance as per bank account	340	Debit	(1)of
Plus			
Cheque not presented	<u>50</u>		(1)
	390		
Less			
Cheques not credited	<u>(860)</u>		(1)
Balance as per Bank Statement	<u>470</u>	Debit	(1)of

[4]

(e)

	<b>Source document</b>	<b>Book of prime entry</b>
Sold goods on credit	Sales invoice	Sales journal
Paid wages in cash	Wages record/sheet /Payroll register <b>(1)</b>	Cash Book <b>(1)</b>
Purchased office fixtures on credit	Purchases invoice <b>(1)</b>	General/Nominal Journal <b>(1)</b>
Goods returned from a credit customer	Credit note <b>(1)</b>	Sales returns journal <b>(1)</b>

[6]

[Total:20]

2 (a)

Sales Ledger Control Account						
Date	Details	\$		Date	Details	\$
2016				2016		
Aug 1	Balance b/d	18 410		Aug 1	Balance b/d	720
Aug 31	Bank	800	<b>(1)</b>	Aug 31	Bank	40 500
	Credit sales	39 600	<b>(1)</b>		Discount allowed	970
					Bad debt	2 750
					Returns inwards	3 900
	Balance c/d	<u>580</u>			Balance c/d	<u>10 550</u>
		<u>59 390</u>				<u>59 390</u>
Sept 1	Balance b/d	10 550	<b>(1)of</b>	Sept 1	Balance b/d	580

[8]

- (b) Proof of arithmetical accuracy  
 Assist in locating errors  
 Provide total trade receivables and trade payables  
 Assist in preparing financial statements quickly  
 Audit staff efficiency  
 Reduce fraud  
**(1)** per point × 2 points

[2]

(c) Error of commission **(1)**

[1]

(d)

	Debit \$		Credit \$	
Martin	930	(1)		
Fatin			930	(1)
Discount allowed	970	(1)		
Discount received	970	(1)		
Suspense			1940	(1)
Suspense	540	(1)		
Returns inwards			540	(1)

[7]

- (e) Speed of processing  
 Process high volumes of data  
 Security of data/Password protected  
 Accuracy  
 Reduced storage space  
 Exception reports and reconciliations available  
 Trial balance can be prepared automatically  
 Financial statements can be prepared automatically

(1) per point × 2 points

[2]

**[Total:20]**

- 3 (a) Pension contribution  
 Charitable donation  
 Trade union contributions  
 Subscription for social club  
 Medical fees

(1) × 1 point

[1]

(b)

Nazim		\$	\$	
Gross pay	160 × \$5		800	(1)
Less				
Tax		210		
Social security		80		
Voluntary contribution		0		
			<u>290</u>	(1)
Net pay			<u><u>510</u></u>	(1)

[3]

Pabla		\$	\$	
Gross pay	180 × \$6		1 080	(1)
Less				
Tax		250		
Social security		110		
Voluntary contribution		50		
			<u>410</u>	(1)
Net pay			<u><u>670</u></u>	(1)

[3]

(c)

		\$	
Gross pay Nazim		800	
Pabla		<u>1 080</u>	
Total gross pay		1 880	(1)of
Plus			
Employers social security		<u>270</u>	(1)
Total wage cost		<u><u>2 150</u></u>	(1)of

[3]

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(d)

JT Manufacturing			
Manufacturing Account for the month of August 2016			
	\$	\$	
Opening inventory of raw materials	3 800		
Purchases of raw materials	<u>15 600</u>		
	19 400		
Less Returns of raw materials	<u>(1 200)</u>		
	18 200		
Closing inventory of raw materials	<u>(5 350)</u>		
Cost of raw materials consumed		12 850	<b>(1)of + w</b>
Plus factory direct wages		9 350	
Direct factory expenses		<u>800</u>	<b>(1)</b>
Prime cost		23 000	<b>(1)of + w</b>
Add overheads:			
Rent	5 400		<b>(1)</b>
Factory indirect labour	2 150		<b>(1)of</b>
Factory management	14 550		
Power	2 400		<b>(1)</b>
Depreciation on factory machinery	<u>6 000</u>		
		<u>30 500</u>	
		53 500	<b>(1) no aliens</b>
Work in progress at 1 August	7 000		
at 31 August	<u>(7 500)</u>		
		<u>(500)</u>	<b>(1)</b>
Production cost <b>(1)</b>		53 000	<b>(1)of</b>

[10]

**[Total:20]**

4 (a)

Ratio	Workings	Answer	Year ended 30 September 2015
Revenue	$240\,000 \times \frac{100}{75}$ (1)	320 000 (1)	\$220 000
Working capital ratio (Current ratio)	$\frac{120\,000 + 13\,000}{180\,000 + 20\,000}$ (1) = (1)	1.25:1 (1)of	1.93:1
Quick ratio (acid test ratio)	$\frac{120\,000}{180\,000 + 20\,000}$ (1) = (1)	0.6:1 (1)of	1.12:1

[8]

- (b) Revenue has increased significantly (1) which may cause difficulty with liquidity. (1)  
 Working capital ratio has deteriorated (1) to a level below the accepted 'yardstick' for liquidity in the range of 1.4/2:1. (1)  
 Quick ratio has deteriorated (1) to a level below the accepted 'yardstick' for liquidity in the range of 0.7/1:1. (1)  
 Inventory is at a high level. (1)  
 Trade payables are at a high level. (1)  
 Ng may be 'overtrading'. (1)  
 The business had no cash to pay expenses and trade payables. (1)  
 (1) × any three valid points

Max [3]

(c)

Proposal	Effect on		
	Current assets	Current liabilities	Working capital
Sell \$15 000 non-current assets for cash	+\$15 000	No effect	+\$15 000
Introduce additional capital of \$10 000, consisting of \$5 000 in cash and \$5 000 non-current assets	+\$5 000 (1)	No effect (1)	+\$5 000 (1)
Obtain an additional bank loan for \$30 000, repayable in equal instalments over five years	+\$30 000 (1)	+\$6 000 (1)	+\$24 000 (1)
Offer trade receivables a cash discount of 10% for quick payment. Credit customers owing \$60 000 will accept this offer	-\$6 000 (1)	No effect (1)	-\$6 000 (1)

[9]

[Total:20]

5 (a)

Li and Yang		\$	\$
Income Statement and Appropriation for the year ended 30 September 2016			
Revenue	(625 000 + 2 800)		627 800 (1)
Less Returns			<u>(15 750) (1)</u>
			612 050
Inventory at 1 October 2015	52 600		
Purchases	<u>295 000</u>		
	347 600		
Less Returns	<u>(4 850)</u>		
	342 750		
Less Inventory at 30 September 2016	<u>(57 900)</u>		
Cost of sales			<u>(284 850) (1)of</u>
Gross profit			327 200 (1)of
Less			
General expenses	27 500		
Heat and light	5 300		
Marketing expenses (41 000 + 1 100)	42 100		(1)
Wages and salaries (153 000 – 13 000)	140 000		(1)
Administration expenses (16 800 – 250)	16 550		(1)
Bank loan interest (4 000 + 2 000)	6 000		(1)
Provisions for depreciation–			
Buildings	2 000		(1)
Computers	12 000		(1)
Office fixtures	6 000		(1)
Bad debt	4 000		(1)
Increase in provision for doubtful debts	1 400		(1)
			<u>(262 850)</u>
Profit for the year			64 350
Plus Interest on drawings:			
Li	1 500	(1)	
Yang	<u>900</u>	(1)	
			<u>2 400</u>
			66 750
Less Interest on capital:			
Li	2 000	(1) Both	
Yang	2 000		
Salary			
Li	8 000	(1) Both	
Yang	<u>5 000</u>		
			<u>(17 000)</u>
			49 750
<b>Share of profit</b>			
	Li		29 850 (1)of
	Yang	<b>of if correct split</b>	<u>19 900 (1)of</u>
			<u>49 750</u>

[19]



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(b)

Current accounts

Date	Details	Li	Yang		Date	Details	Li	Yang	
		\$	\$				\$	\$	
Sept 30	Drawings	15 000	9 000	(1)	Oct 1	Balance b/d	4 300	2 900	
	Drawings salary	8 000	5 000	(1)	Sept 30	Interest on capital	2 000	2 000	
	Int on drawings	1 500	900	(1)of		Salary	8 000	5 000	
	Balance c/d	<u>19 650</u>	<u>14 900</u>			Share of profit	<u>29 850</u>	<u>19 900</u>	(1)of
		<u>44 150</u>	<u>29 800</u>				<u>44 150</u>	<u>29 800</u>	
					Oct 1	Balance b/d	19 650	14 900	(1)of

[5]

(c)

Li and Yang  
Statement of Financial Position at 30 September 2016

	Cost \$	Accumulated depreciation \$	Net Book Value \$
<u>Non-current assets</u>			
Land and buildings	200 000	24 000	176 000 (1)
Computer equipment	60 000	32 000	28 000 (1)
Office fixtures	30 000 (1)	13 000 (1)	17 000
	290 000	69 000	221 000
<u>Current assets</u>			
Inventory		57 900	(1)
Trade receivables (69 200 + 2 800 (1) – 4 000 (1))	68 000		
Less: provision for doubtful debts	(3 400)		
		64 600	(1)of
Other receivables		250	(1)
			122 750
Total assets			343 750
Capital accounts:			
Li		50 000	
Yang		50 000	
			100 000 (1)
Current accounts:			
Li		19 650	
Yang		14 900	
			34 550 (1)of
<u>Non-current liabilities</u>			
5% Bank loan repayable 2021			120 000 (1)
<u>Current liabilities</u>			
Trade payables		62 500	(1)
Other payables: (1 100 (1) + 2 000 (1))		3 100	
Bank (25 600 – 2 000)		23 600	(1)
			89 200
<u>Total liabilities</u>			343 750

[16]

[Total:40]