Cambridge Assessment International Education
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 Structured **October/November 2017**

MARK SCHEME

Maximum Mark: 120

Published

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Cash Book (extract)
<table>
<tr><th>Date</th><th>Details</th><th>Discount
$</th><th></th><th>Bank
$</th><th></th><th>Date</th><th>Details</th><th>Discount
$</th><th>Bank
$</th><th></th></tr>
<tr><td>2017</td><td></td><td></td><td></td><td></td><td></td><td>2017</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Sept 1</td><td>Balance b/d</td><td></td><td></td><td>1900</td><td></td><td>Sept 8</td><td>General expenses</td><td></td><td>725</td><td></td></tr>
<tr><td>5</td><td>Cello</td><td>20</td><td></td><td>830</td><td>**(1)**</td><td>26</td><td>Tansley</td><td>70</td><td>3430</td><td>**(1)**</td></tr>
<tr><td>14</td><td>Francis</td><td>60</td><td></td><td>1940</td><td>**(1)**</td><td>29</td><td>Alice</td><td></td><td>300</td><td>**(1)**</td></tr>
<tr><td>23</td><td>Alice</td><td></td><td></td><td>300</td><td>**(1)**</td><td>30</td><td>Balance c/d</td><td></td><td>515</td><td></td></tr>
<tr><td></td><td></td><td>80</td><td>**(1)of**</td><td>4 970</td><td></td><td></td><td></td><td>70</td><td>4970</td><td></td></tr>
<tr><td>Oct 1</td><td>Balance b/d</td><td></td><td></td><td>515</td><td>**(1)OF**</td><td></td><td></td><td></td><td></td><td></td></tr>
</table></td><td>**7**</td></tr>
<tr><td>1(b)</td><td>Discount Received account
<table>
<tr><th>Date</th><th>Details</th><th>$</th><th></th><th>Date</th><th>Details</th><th>$</th><th></th></tr>
<tr><td>2017</td><td></td><td></td><td></td><td>2017</td><td></td><td></td><td></td></tr>
<tr><td>Sept 30</td><td>Income statement</td><td>345</td><td>**(1)OF**</td><td>Sept 1</td><td>Balance b/d</td><td>275</td><td>**(1)**</td></tr>
<tr><td></td><td></td><td></td><td></td><td>30</td><td>Cash Book</td><td>70</td><td>**(1)OF**</td></tr>
<tr><td></td><td></td><td>345</td><td></td><td></td><td></td><td>345</td><td></td></tr>
</table></td><td>**3**</td></tr>
<tr><td>1(c)</td><td>
<table>
<tr><th></th><th>Sub-division</th></tr>
<tr><td>Discount allowed</td><td>General/Nominal**(1)**</td></tr>
<tr><td>Tansley</td><td>Purchases **(1)**</td></tr>
</table></td><td>**2**</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)</td><td><table>
<tr><th></th><th>$</th></tr>
<tr><td>Trial balance before year end adjustment</td><td>3600 (1)</td></tr>
<tr><td>Income statement</td><td>2500 (1)</td></tr>
<tr><td>Statement of financial position at 30 September 2017</td><td>1100 (1)</td></tr>
</table></td><td>3</td></tr>
<tr><td>1(e)</td><td><table>
<tr><th></th><th>Document</th></tr>
<tr><td>A written acknowledgement of money received</td><td>Receipt (1)</td></tr>
<tr><td>A demand for payment</td><td>Invoice (1)</td></tr>
<tr><td>A summary of transactions for a period issued to a customer</td><td>Statement of account (1)</td></tr>
</table></td><td>3</td></tr>
<tr><td>1(f)(i)</td><td>Running balance account (1)</td><td>1</td></tr>
<tr><td>1(f)(ii)</td><td>The balance of the account is always available (1)
Easily understood by non-specialists (1)
Max 1
Accept other valid points</td><td>1</td></tr>
</table>

Question	**Answer**	**Marks**
2(a)	General journal	**7**

General journal

	Dr	Cr
	$	$
Suspense	4900 }	
Rent payable		4900 **(1)**
Suspense	4900 } **(1)**	
Rent receivable		4900 **(1)**
Suspense	900 **(1)**	
General expenses		900 **(1)**
Purchases	3400 **(1)**	
Suspense		3400 **(1)**

Question	**Answer**	**Marks**
2(b)	Suspense account	**4**

Suspense account

Details	$		Details	$	
Rent payable	4 900	} **(1)**	Original difference	7 300	**(1)OF**
Rent receivable	4 900	}	Purchases	3 400	**(1)**
General expenses	900	**(1)**			
	10 700			10 700	

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(c)</td><td>Revision of profit
<table>
<tr><td colspan="3"></td><td>$</td></tr>
<tr><td colspan="3">Draft profit for the year</td><td>15 600</td></tr>
<tr><td></td><td>Increase</td><td>Decrease</td><td></td></tr>
<tr><td></td><td>$</td><td>$</td><td></td></tr>
<tr><td>1. Rent receivable, $4900 had been debited to the Rent payable account.</td><td>4 900 **(1)**
4 900 **(1)**</td><td></td><td></td></tr>
<tr><td>2. General expenses paid of $1200 had been correctly entered in the cash book but had been recorded in the general expenses account as $2100.</td><td>900 **(1)**</td><td></td><td></td></tr>
<tr><td>3. No debit entry had been made for purchases, $3400, on credit from D. Ploy</td><td></td><td>3400 **(1)**</td><td></td></tr>
<tr><td></td><td>10 700</td><td>3 400</td><td>7 300</td></tr>
<tr><td colspan="3">Revised profit for the year</td><td>22 900 **(1)OF**</td></tr>
</table>
</td><td>**5**</td></tr>
<tr><td>2(d)</td><td>1 Commission is an error of posting in the same class/type of account. **(1)**
Principle is an error of posting to a different class/type of account. **(1)**

2 Compensation is the result of more than one error in posting which compensate each other. **(1)**
Reversal occurs where both the entries are reversed for a single error. **(1)**</td><td>**4**</td></tr>
</table>

Question	Answer	Marks
3(a)	Subscriptions account	6

Date	Details	$	Date	Details	$
2016			2016		
Oct 1	Balance b/d	200	Oct 1	Balance b/d	320
2017			2017	Bank	7600 **(1)**
Sept 30	Income and expenditure**(1)**	7800 **(1)OF**	Sept 30	Irrecoverable/Bad debts	200 **(1)**
30	Balance c/d	400	30	Balance c/d	280
		8400			8400
Oct 1	Balance b/d	280 **(1)**	Oct 1	Balance b/d	400 **(1)**

Question	Answer	Marks
3(b)		**Max 4**

Receipts and payments account	**Income and expenditure account**
Contains an opening and closing balance **(1)**	No balances surplus/deficit at end is transferred to the accumulated fund **(1)**
Contains only cash receipts or payments **(1)**	Contains non-cash items such as depreciation **(1)**
Contains only actual cash receipts or payments **(1)**	Adjusted for accruals and prepayments **(1)**
Contains both capital and revenue expenditure **(1)**	Does not contain capital expenditure **(1)**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
Puxton Social Club
Statement of Financial Position at 30 September 2017
<table>
<tr><th></th><th>$</th><th></th><th>$</th><th></th></tr>
<tr><td>Non-current assets</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Equipment and fixtures (valuation)</td><td></td><td></td><td>5800</td><td>(1)</td></tr>
<tr><td>Current assets</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Inventory of refreshments</td><td>350</td><td></td><td></td><td></td></tr>
<tr><td>Subscriptions in arrears</td><td>280</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Other receivables</td><td>30</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Bank</td><td>170</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>830</td><td></td></tr>
<tr><td>Total assets</td><td></td><td></td><td>6630</td><td></td></tr>
<tr><td>Accumulated fund</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Opening balance</td><td>2250</td><td>(1)OF</td><td></td><td></td></tr>
<tr><td>Plus Surplus</td><td>150</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>2400</td><td>(1)OF</td></tr>
<tr><td>Non-current liability</td><td></td><td></td><td></td><td></td></tr>
<tr><td>8% bank loan (repayable 31 December 2019)</td><td></td><td></td><td>3500</td><td>(1)</td></tr>
<tr><td>Current liabilities</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Trade payables</td><td>80</td><td></td><td></td><td></td></tr>
<tr><td>Subscriptions in advance</td><td>400</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Other payables</td><td>250</td><td>(1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>730</td><td></td></tr>
<tr><td>Total liabilities</td><td></td><td></td><td>6 630</td><td></td></tr>
</table>
</td><td>8</td></tr>
</table>

Question	**Answer**	**Marks**
3(d)	A more realistic depreciation expense used is charged to income statement/income and expenditure account **(1)** Value in statement of financial position is realistic market value **(1)** It is simple and straight forward to use **(1)** Avoids the need for keeping detailed records. **(1)** **Max 2** **Other valid answers accepted**	**2**

Question	**Answer**	**Marks**
4(a)(i)	Revenue $240\,000 \times \frac{100}{75}$ **(1)** = 320 000 **(1)**	**2**
4(a)(ii)	Purchases 240 000 + (33 500 – 19 700) = 253 800 **(1)** **(1)**	**2**
4(a)(iii)	Profit for the year 80 000 **(1)** – 65 000 = 15 000 **(1)**	**2**
4(b)	see table below	**6**

	Workings	31 July 2017	31 July 2016
Profit margin (profit for the year to revenue)	$\left.\frac{15\,000}{320\,000}\right\} \times 100 =$ **(1)OF**	4.69% **(1)OF**	2.31%
Return on capital employed (ROCE)	$\frac{15\,000 \quad \textbf{OF}}{70\,000 + 50\,000 \ \textbf{(1)}} \times 100$	12.50% **(1)OF**	20.00%
Working capital ratio (current ratio)	$\frac{33\,500 + 50\,500}{25\,000}$ **(1)**	2.10:1 **(1)**	1.25:1

Question	Answer	Marks
4(c)	The profit margin has improved/increased **(1) OF** This may be due to increasing prices **(1),** change in product mix **(1),** controlling expenses **(1),** cheaper suppliers/lower cost of sales **(1) OF** Return on capital employed has deteriorated **(1) of** This may be due to an increase in the capital employed **(1) OF** such as the bank loan **(1) OF** Profit reduced **(1) OF** This may be due to decrease in profit for the year due to loan interest **(1) OF** **Max** 2 points x **(2 marks)** **(1 mark)** for stating and **(1 mark)** for development Own figures apply. Other valid answers accepted	**4**
4(d)	The working capital ratio is sufficient **(1) OF** It is slightly above the recommended level of 2:1 **(1) OF**	**2**
4(e)	Introduce more capital in cash Obtain a further long-term loan Reduce drawings Reduce expenses Sale of non-current assets Other acceptable answers accepted 2 points x **(1 mark)**	**2**

Question	Answer				Marks
5(a)	Jian and Shen Income Statement and Appropriation Account for the year ended 30 June 2017				**19**
		$	$		
	Revenue		520 000		
	Returns		(10 300)		
			509 700	**(1)**	
	Inventory at 1 July 2016	37 800			
	Purchases	314 000			
		351 800			
	Returns	(8 200)		**(1)**	
		343 600			
	Carriage inwards	3 000			
		346 600			
	Inventory at 30 June 2017	(42 900)			
	Cost of sales		(303 700)	**(1) OF**	
	Gross profit		206 000		
	Carriage outwards	9 550		**(1)**	
	Wages and salaries (87 500 – 5 000)	82 500		**(1)**	
	Electricity and water (8 450 + 1150)	9 600		**(1)**	
	General expenses	28 850		**(1)**	
	Motor vehicle expenses (19 100 – 200)	18 900		**(1)**	
	Bank loan interest (2 500 + 1 500)	4 000		**(1)**	
	Bad debt	3 500		**(1)**	
	Increase in provision for doubtful debts	3 000		**(1)**	
	Provisions for depreciation –				
	Leasehold buildings	6 000		**(1)**	
	Motor vehicles	7 500		**(1)**	
	Office fixtures	1 600		**(1)**	
			(175 000)		
	Profit for the year		31 000		

Question	Answer				Marks
5(a)	Interest on drawings:				
	Jian	800	**(1)**		
	Shen	600			
				1 400	
				32 400	
	Interest on capital:				
	Jian	3 500	**(1)**		
	Shen	2 500			
				(6 000)	
				26 400	
	Salary Shen			(5 000) **(1)**	
				21 400	
	Share of profit:				
	Jian			16 050 **(1) OF**	
	Shen			5 350 **(1) OF**	
				21 400	

Question	Current accounts									Marks
5(b)		Jian	Shen			Jian	Shen			**6**
		$	$			$	$			
	Balance b/d	500	900		Interest on capital	3 500	2 500	**(1)OF**		
	Drawings	8 000	6 000	**(1)**	Salary		5 000			
	Drawings (salary)		5 000	**(1)**	Share of profit	16 050	5 350	**(1)OF**		
	Interest on drawings	800	600	**(1)OF**						
	Balance c/d	10 250	350							
		19 550	12 850			19 550	12 850			
					Balance b/d	10 250	350	**(1)OF**		

Question	Answer	Marks
5(c)	Jian and Shen Statement of Financial Position at 30 June 2017	**15**

Non-current assets	Cost	Accumulated depreciation	Net book value
	$	$	$
Leasehold buildings	120 000	36 000	84 000 **(1)**
Motor vehicles	40 000	17 500	22 500 **(1)**
Office fixtures	16 000 **(1)**	4 100	11 900
	176 000	57 600	118 400
Current assets			
Inventory		42 900 **(1)**	
Trade receivables (63 500 – 3 500)	60 000 **(1)**		
provision for doubtful debts	(5 000)		
		55 000 **(1)OF**	
Other receivables		200 **(1)**	
			98 100
Total assets			216 500
Capital accounts:			
Jian		70 000 } **(1)**	
Shen		50 000	
			120 000
Current accounts:			
Jian		10 250 } **(1) OF**	
Shen		350	
			10 600
			130 600
Non-current liabilities			
8% loan (repayable 2025)			50 000 **(1)**

Question	Answer	Marks
5(c)	Current liabilities Trade payables 23 150 **(1)** Other payables (1 150**(1)** + 1 500**(1)**) 2 650 Bank overdraft (10 600**(1)** – 500**(1)**) 10 100 35 900 Total capital and liabilities 216 500 Suitable alternative layouts accepted	