Cambridge O Level

Cambridge International Examinations
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 **May/June 2016**

MARK SCHEME

Maximum Mark: 120

Published

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 May/June 2016 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **11** printed pages.

CAMBRIDGE
International Examinations

[Turn over

1 (a)

Assets	$	Liabilities	$	Capital $	
Inventory	2850	Other payable	200		
Trade receivable	600	Bank	450		
Motor vehicle	4500	5% Bank loan	5000		
	7 950		5650	2300	**(1)**

[1]

(b)

Jaafar account

Date	Details	$		Date	Details	$	
2015				2015			
May 1	Balance b/d	600		May 5	Sales returns / returns in	102	**(1)**
4	Sales	1275	**(1)**	16	Bank	588	**(1of)**
					Discount allowed	12	**(1of)**
				31	Balance c/d	1173	
		1875				1875	
June 1	Balance b/d	1173	**(1of)**				

[5]

(c) Bulk purchase by Jaafar
Loyal customer

(1) mark × 2 points **[2]**

(d)

Electricity account

Date	Details	$		Date	Details	$	
2015				2015			
May 17	Bank	440	**(1)**	May 1	Balance b/d	200	
31	Balance c/d	55	**(1)**	31	Income Statement **(1)**	295	**(1of)**
		495				495	
				June 1	Balance b/d	55	
							(1of)

[5]

(e) Matching / Accrual concept **[1]**

(f)

		Source document	Book of prime entry	Effect on owner's capital ($)
9 May	Sold goods on credit for £900, (cost $600).	*Sales invoice*	*Sales journal*	*+300*
14 May	Customer returned goods, bought by him on 9 May, for $300.	Credit note **(1)**	Sales returns /returns in daybook /journal **(1)**	–100 **(1)**
21 May	Paid wages in cash $150.	Payslip/Wages book **(1)**	Cash Book **(1)**	–150**(1)**

[6]

[Total:20]

2 **(a)** Depreciation is the loss in value of a non-current asset **(1)** over its working life / in the accounting period. **(1)** **[2]**

(b)

Statement	True	False
1. There is only one method of charging depreciation.		✓
2. Depreciation is the putting by of cash for asset replacement.		✓**(1)**
3. Depreciation is an application of the going concern concept.	✓**(1)**	

[2]

(c) **(i)** Loss on sale of vehicle $16 000
$7000 = $9000 less receipt $8400 = $600 loss **(1)** **[1]**

(ii)

	Cost ($)	Accumulated Depreciation ($)	Net book value $	Depreciation for the year ($)	
	50 000	18 400			
Sale	(16 000)	(7 000)			
	34 000	11 400	22 600 x 25% =	5 650	**(1)**
Purchase	20 000		20 000 x 25% =	5 000	**(1)**
Total	54 000			10 650	

[2]

(d)

Motor vehicles – provision for depreciation account

Date	Details	$		Date	Details	$	
2015				2015			
May 31	Disposal **(1)**	7 000	**(1)**	Mar 1	Balance b/d	18 400	**(1)**
2016				2016			
Feb 29	Balance c/d	22 050		Feb 29	Income statement / Depreciation	10 650	**(1of)**
		29 050				29 050	
				Mar 1	Balance b/d	22 050	**(1of)**

[5]

(e)

Journal

	Dr		Cr	
	$		$	
Bank	1800	**(1)**		
Bad debts	3300	**(1)**		
Wade Designs / Sales ledger control / Trade receivables			5100	**(1)**

[3]

(f)

	$			$	
Up to 1 month	18 000	×	2%	=360	
1 to 3 months	12 200	×	5%	=610	
3 to 6 months	3 300	×	10%	=330	
Over 6 months	2 200	×	20%	=440	
	35 700			1740	**(1)**

[1]

(g)

Provision for doubtful debts account

Date	Details	$		Date	Details	$	
2016				2015			
29 Feb	Income Statement	310	**(1of)**	1 Mar	Balance b/d	2050	**(1)**
	Balance c/d	1740					
		2050				2050	
				2016			
				1 Mar	Balance b/d	1740	**(1of)**

[3]

(h) Prudence / matching / accruals **(1)** **[1]**

[Total:20]

3 (a) (i)

Sales revenue		$	
Trade receipts		32 000	
Cash receipts	7 400 +9 000 + 11500 =	27 900	(1)
		59 900	
Trade receivables at 31 March		18 350	(1)
		78 250	
Trade receivables at 1 April		(17 600)	(1)
		60 650	(1of)

[4]

(ii)

Purchases	$	
Trade payments	29 000	
Trade payables at 31 March	7 950	***(1)** for both
	36 950	
Trade payables at 1 April	(9 750)	
	27 200	**(1 of)**

[2]

(b)

Alif
Income statement for the year ended 31 March 2016

		$	$	
Revenue			60 650	
Opening inventory		12 000		
Purchases		27 200		
		39 200		
Closing inventory		(11 500)		
Cost of sales			27 700	**(1of)**
Gross profit			32 950	
Plus Other income: Interest receivable			600	**(1)**
			33 550	
Less				
Rent	(8000 + 500**(1)** –700**(1)**)	7 800		
Other operating expenses		6 500		
Wages	(9 000 –300**(1)** +450**(1)**)	9 150		
Depreciation	(11+2.5**(1)**–10.5**(1)**)	3 000		
			(26 450)	
Profit for the year			7 100	

[8]

(c)

Statement of financial position at 31 March 2016

		$		$	
Non-current assets					
Equipment				10 500	**(1)**
Current Assets					
Inventory		11 500			
Trade receivables		18 350			
Other receivables: Prepaid rent		700			
				30 550	**(1)**
				41 050	
Capital		35 000			
Profit for the year		7 100			
		42 100			
Drawings		(11 500)			
				30 600	**(1of)**
Current Liabilities					
Trade payables		7 950			
Other payables: Wages		450	**(1)**		
Bank	3 950 + 40 000 – 46 000	2 050	**(2) (1of)**		
				10 450	
				41 050	

[6]

[Total:20]

4 (a)

	Workings	Answer	2014
Gross profit/sales percentage	300 000 **(1)** x 100 = 750 000 **(1)**	40% **(1of)**	37.5%
Return on capital employed (ROCE)	100 000**(1)** x 100= 250 000 + 80 000 **(1)**	30.3% **(1of)**	20%
Working capital ratio (current ratio)	60 000 + 22 000 + 1 500+28 000 **(1)** 50 000 + 8 500 **(1)**	1.9:1 **(1of)**	2.9:1
Quick ratio (acid test ratio)	22 000 + 1 500 + 28 000 **(1)** 50 000 + 8 500 **(1)**	0.9:1 **(1of)**	0.4:1

[12]

(b) (i) Profitability

The Gross profit to sales has increased in 2015 **(1)** this may be due to higher selling prices charged **(1)** or more efficient/bulk buying / purchase costs reduced**.** **(1)**
Expenses have been controlled / reduced. **(1)**
The ROCE has increased in 2016. **(1)**
The profit for the year has increased **(1)**
(1) X 4 points (allow own figure comments) **[4]**

(ii) Liquidity

Although the Working capital ratio has reduced **(1)**
the liquidity of the business has improved. **(1)**
Working capital is below 2:1 the ideal ratio **(1)**
Inventory holding of unsold stock has been reduced. **(1)**
The quick ratio has improved **(1)** from a dangerous level / towards 1:1. **(1)**
Trade receivables collection has been improved. **(1)**
Lache has a positive bank balance to meet expenditure. **(1)**
(1) X 4 points (allow own figure comments) **[4]**

[Total:20]

5 (a)

Suria
Income statement for the year ended 31 March 2016.

			$	$	
Revenue				287 000	
Less Sales returns				(3 150)	
				283 850	**(1)**
Less Inventory 1 April 2015			15 340		**(1)**
Purchases			143 800		**(1)**
			159 140		
Less Inventory 31 March 2016			(17 990)		**(1)**
Cost of sales				(141 150)	**(1)**
Gross profit				142 700	**(1)of**
Plus other receivables:					
Commission receivable		(4 900 + 1 400)		6 300	**(1)**
				149 000	
Less expenses:					
Wages and salaries			26 500		**(1)**
Computer expenses		(12 200**(1)** – 8 000 **(1)**)	4 200		**(2)**
Rent and rates			10 000		**(1)**
Bank loan interest		(1 500**(1)** + 900**(1)**)	2 400		**(2)**
Heat and light			7 300		**(1)**
Advertising		(12 600 **(1)** – 3 800 **(1)**)	8 800		**(2)**
General expenses			11 100		**(1)**
Depreciation:	Leasehold		4 000		**(1)**
	Computers	(6 850 **(1)** +2 000 **(1)**	8 850		**(2)**
	Office furniture		1 550		**(1)**
Bad debts			1 900		**(1)**
Increase in PDD	(1040) **(1)**		130		**(2)**
				(86 730)	
Profit for the year				62 270	

[24]

(b)

Suria
Statement of financial position at 31 March 2016

Non-current assets					
		Cost	Aggregate depreciation	Book value	
		$	$	$	
Leasehold		100 000	11 000	89 000	**(1of)**
Computers		52 000	25 450	26 550	**(1of)**
Office furniture		15 500	13 550	1 950	**(1of)**
		167 500	50 000	117 500	**(1of)**
Current assets					
Inventory				17 990	**(1)**
Trade receivables	27 900 **(1)**– 1 900 **(1)**	26 000			
Less Provision for doubtful debts	**(1of)**	(1 040)	24 960		**(3)**
Other receivables	1 400 **(1)** + 3 800 **(1of)**		5 200		**(2)**
Cash and bank			520		**(1)**
				48 670	
				166 170	
Financed by:					
Capital			70 000		
Profit for the year			62 270		
			132 270		
Less Drawings			(28 000)		**(1)**
				104 270	
Current liabilities					
Trade payables			18 600		**(1)**
6% Bank loan			40 000		**(1)**
Other payables	2 400 **(1)** + 900 **(1of)**		3 300		**(2)**
				61 900	
				166 170	

[16]

[Total:40 marks]