Cambridge O Level

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 **October/November 2018**

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 International will not enter into discussions about these mark schemes.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:
Marks must be awarded in line with: • the specific content of the mark scheme or the generic level descriptors for the question   • the specific skills defined in the mark scheme or in the generic level descriptors for the question   • the standard of response required by a candidate as exemplified by the standardisation scripts.
GENERIC MARKING PRINCIPLE 2:
Marks awarded are always **whole marks** (not half marks, or other fractions).
GENERIC MARKING PRINCIPLE 3:
Marks must be awarded **positively**:   • marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate   • marks are awarded when candidates clearly demonstrate what they know and can do   • marks are not deducted for errors   • marks are not deducted for omissions   • answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.
GENERIC MARKING PRINCIPLE 4:
Rules must be applied consistently e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

Question	Answer	Marks
1(a)	Trial Balance at 31 August 2018	5

	Debit	Credit
	$	$
Revenue		19 600
Purchases	9 800	
Inventory	870 **(1)**	
Rent receivable		400 **(1)**
Rent payable	800	
General expenses	230	
Non-current assets (at cost)	18 750	
Provision for depreciation		3 970
Bank overdraft		30 **(1)**
Motor vehicle expenses	650 **(1)**	
Trade receivables	2 990	
Trade payables		1 090
Capital		9 000
	____	____
Matching totals **(1)of**	<u>34 090</u>	<u>34 090</u>

Question	Answer	Marks
1(b)	Computer maintenance expenses account	9

Computer maintenance expenses account

Date	Details	$	Date	Details	$
Sept			Sept		
1	Balance b/d	720 **(1)**	30	Income statement**(1)**	1400 **(1)**of
19	KK Computers	<u>750</u> **(1)**		Balance c/d	<u>70</u>
		<u>1 470</u>			<u>1 470</u>
Oct					
1	Balance b/d	70 **(1)**			

KK Computers account

Date	Details	$	Date	Details	$
Sept			Sept		
8	Bank	425 **(1)**	1	Balance b/d	450
	Discount received	25 **(1)**	19	Computer maintenance expenses	750 **(1)**
30	Balance c/d	<u>750</u>			<u> </u>
		<u>1 200</u>			<u>1 200</u>
			Oct		
			1	Balance b/d	750 **(1)**of

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Question	Answer	Marks
1(c)(i)	General journal **(1)**	**3**
1(c)(ii)	Sales invoice **(1)**	
1(c)(iii)	Statement of account **(1)**	
1(d)(i)	Cash discount **(1)**	**3**
1(d)(ii)	200 – (250 – 70) = $20 **(1)** profit **(1)**	

Question	Answer	Marks
2(a)	1 Original entry **(1)** 2 Reversal **(1)** 3 Principle **(1)**	**3**
2(b)	General Journal	**6**

General Journal

	Debit	Credit
	$	$
Purchases	3 600 **(1)**	
PP Limited		3 600 **(1)**
Direct wages	1 200 **(1)**	
Cash		1 200 **(1)**
Office computer	800 **(1)**	
Direct expenses		800 **(1)**

Question	Answer	Marks
2(c)	East Town Decorators Departmental Trading Account for the 3 months ended 30 September 2018	11

East Town Decorators
Departmental Trading Account for the 3 months ended 30 September 2018

	Paint department		Wallpaper department	
	$	$	$	$
Revenue		12 000		8 000
Inventory 1 July 2018	2 300		1 800	
Purchases	5 600 **(1)**		2 500 **(1)**	
	7 900		4 300	
Inventory 30 September 2018	(3 100) **(1)**		(1 600) **(1)**	
Cost of sales		(4 800) **(1)**		(2 700) **(1)**
		7 200		5 300
Direct wages	4 000 **(1)**		3 200 **(1)**	
Direct expenses	2 400 **(1)**		1 600 **(1)**	
		(6 400)		(4 800)
Profit		800		500 **(1)of***

*Mark for both figures

Question	Answer	Marks
3(a)	Must share profits with Nanda **(1)** Must consult Nanda before decisions **(1)** Conflicts may arise with Nanda **(1)** Joint and several liability for Nanda's acts **(1)** Decision making could be slower **(1)** **Max 2 points** **Accept other valid points.**	2

3(b) — **8**

Capital accounts

Date	Details	Lodini	Mathy	Nanda	Date	Details	Lodini	Mathy	Nanda
Aug		$	$	$	Aug		$	$	$
1	Goodwill	12 000 **(1)**	12 000 **(1)**	6 000 **(1)**	1	Balance	25 000	15 000	
	Loan	8 000 **(1)**				Bank			10 000 **(1)**
						Goodwill	15 000 **(1)**	15 000 **(1)**	
	Balance	20 000	18 000	4 000					
		40 000	30 000	10 000			40 000	30 000	10 000
					1	Balance	20 000 **(1)**of *	18 000	4 000

Alternative entries for goodwill:
Nanda $6000 Debit **(1)**, Lodini $3000 Credit **(2)**, Mathy $3000 Credit **(2)**

*For all three balances

Question	Answer	Marks

3(c)	**Lodini, Mathy and Nanda**
	Appropriation Account for the year ended 31 July 2018
	
	                                         $ $
	Profit for the year (24 500 **(1)** – 400 **(1)**) 24 100
	Plus Interest on drawings
	     Lodini 850 **(1) all three**
	     Mathy 1 100
	     Nanda 600
	                                                      2 550
	                                                      26 650
	
	Less Interest on capital
	     Lodini 1 000 **(1)of**
	     Mathy 900 **(1)of**
	     Nanda 200 **(1)of**
	                                                  (2 100)
	                                                    24 550
	
	Share of profit
	     Lodini 9 820 **(1)of**
	     Mathy 9 820
	     Nanda 4 910 **(1)of**
	                                                     24 550
		8

3(d)	Accounting entity The business is treated as being completely separate from the owners of the business. **(1)** The personal assets and the personal spending of the owners do not appear in the accounting records of the business. **(1)** **Max 2**	2

Question	Answer	Marks
4(a)	Working capital ratio $\dfrac{20\,000 + 50\,000 + 4\,000\,\}}{12\,000 + 25\,000\qquad\}\textbf{(1)}} = 2.00:1\textbf{(1)OF}$ Quick ratio $\dfrac{50\,000 + 4\,000\,\}\textbf{(1)}}{12\,000 + 25\,000\,\}} = 1.46:1\textbf{(1)OF}$	**4**
4(b)	The working capital ratio is at the 'benchmark' acceptable level of 1.5–2:1 **(1)** The quick ratio is above the 'benchmark' acceptable level of 0.7–1:1 **(1)** Need to improve collection of trade receivables **(1)** this would reduce the bank overdraft **(1)**. **Comments to be based on answers to (a).** **Max 4**	**4**
4(c)	Inventory 20 000 + 35 000 – 40 000 = 15 000**(2) (1)of** for two correct items Trade receivables 50 000 + 60 000 – 80 000 = 30 000**(2) (1)of** for two correct items Trade payables 12 000 + 35 000 – 27 000 =20 000**(2) (1)of** for two correct items Bank ((25 000) + 80 000– 27 000 – 15 000) **(1)** = 13 000 **(2)/(1(OF)**	**9**
4(d)	<table><tr><td></td><td>Working capital $</td></tr><tr><td>Sold non-current assets for cash $1200</td><td>+ *1200*</td></tr><tr><td>Trade receivables paid $485 in full settlement of debts of $500</td><td>−15 **(1)**</td></tr><tr><td>Converted $2500 of the bank overdraft to a five year bank loan</td><td>+2500 **(1)**</td></tr><tr><td>Hema brought additional capital into the business: motor van $900 and inventory $600</td><td>+600 **(1)**</td></tr></table>	**3**

Question	Answer	Marks
5(a)	**Shobi** Income Statement for the year ended 30 September 2018	**20**

	$	$
Revenue		265 000
Inventory at 1 October 2017	26 000 **(1)**	
Purchases	135 000	
Carriage inwards	3 100 **(1)**	
	164 100	
Returns outwards	(8 200) **(1)**	
	155 900	
Drawings of goods	(4 700) **(1)**	
	151 200	
Inventory at 30 September 2018	(19 500)	
Cost of sales		(131 700) **(1)**
Gross profit		133 300 **(1)**of
Other incomes:		
Rent receivable (8500+ 150)	8 650 **(1)**	
Profit on disposal	1 800 **(1)**	
Decrease in provision for doubtful debts	2 100 **(1)**	
		12 550
		145 850
Wages and salaries (41 000 + 1700)	42 700 **(1)**	
Motor vehicle expenses	6 800 **(1)**	
Rent payable (15 000 - 3000)	12 000 **(1)**	
Bank interest	3 000 **(1)**	
Heat, light and power	5 050 **(1)**	
Advertising	9 000 **(1)**	
General expenses (17 700 + 2 600)	20 300 **(1)**	
Bad debt	750 **(1)**	
Provisions for depreciation-		
Leasehold premises	12 000 **(1)**	
Motor vehicles	10 500 **(1)**	
Fixtures and fittings	1 900 **(1)**	
		(124 000)
Profit for the year		21 850

Question	Answer	Marks
5(b)	Statement of Financial Position at 30 September 2018	20

Non-current assets

	Cost	Accumulated depreciation	Book value	
	$	$	$	
10-year leasehold premises	120 000	84 000	36 000	**(1)**of
Motor vehicles	52 000 **(1)**	20 500	31 500	**(1)**of
Office fixtures	19 000	9 500	9 500	**(1)**of
	191 000	114 000	77 000	

Current assets

Inventory		19 500		**(1)**
Trade receivables (23 250 – 750)	22 500			**(1)**
Less Provision for doubtful debts	(900)			**(1)**
		21 600		**(1) of**
Other receivables (150 **(1)** + 3000 **(1)**)		3 150		
Bank (13 350 **(1)** – 12 000 **(1)**)		1 350		
			45 600	
Total assets			122 600	

Capital:

Capital		40 000		
Plus Profit for the year		21 850	**(1) of**	
		61 850		
Less Drawings (4700 **(1)** + 11 900 **(1)**)		(16 600)		
			45 250	

Non-current liabilities (1)

6% loan			50 000	**(1)**

Current liabilities

Trade payables		23 050		**(1)**
Other payables (2600 **(1)** + 1700 **(1)**)		4 300		
			27 350	
Total capital and liabilities			122 600	

Alternative presentations accepted