Cambridge Assessment International Education
Cambridge Ordinary Level

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 Structured **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.

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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)	Lohit account <table><tr><td>Date</td><td>Details</td><td>$</td><td>Date</td><td>Details</td><td>$</td></tr><tr><td>August</td><td></td><td></td><td>August</td><td></td><td></td></tr><tr><td>10</td><td>Purchases return</td><td>17 **(1)**</td><td>1</td><td>Balance b/d</td><td>90 **(1)**</td></tr><tr><td>15</td><td>Bank</td><td>97</td><td>9</td><td>Purchases</td><td>68 **(1)**</td></tr><tr><td></td><td>Discount received</td><td>3 **(1)**</td><td></td><td></td><td></td></tr><tr><td>31</td><td>Balance c/d</td><td>41</td><td></td><td></td><td></td></tr><tr><td></td><td></td><td>158</td><td></td><td></td><td>158</td></tr><tr><td></td><td></td><td></td><td>September</td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>1</td><td>Balance b/d</td><td>41 **(1)of**</td></tr></table>	5
1(b)(i)	Trade discount **(1)**	5
1(b)(ii)	Sales journal **(1)**	
1(b)(iii)	Credit note **(1)**	
1(b)(iv)	Sales ledger **(1)**	
1(b)(v)	Current assets **(1)**	
1(c)(i)	$150 is prepaid **(1)** at the start of the year, but relates to/must be matched to the year ended 31 August 2018. **(1)**	2
1(c)(ii)	$25 is owing/accrued **(1)** for the expense used in the current year. **(1)**	2

Question	Answer	Marks
1(d)	(see table below)	6

	Trial balance at 31 August 2018	Income statement For the year ended 31 August 2018		Statement of financial position at 31 August 2018	
		Expenses	Income	Assets	Liabilities
	$	$	$	$	$
Rent payable	*14 150*	*13 900*	–	*250*	–
Telephone expenses	1 560 **(1)**	1 585 **(1)**	–	–	25 **(1)**
Rent receivable	2 000 **(1)**	–	2 500 **(1)**	500 **(1)**	–

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
Sales ledger control account
<table>
<tr><th>Date</th><th>Details</th><th>$</th><th>Date</th><th>Details</th><th>$</th></tr>
<tr><td>July</td><td></td><td></td><td>July</td><td></td><td></td></tr>
<tr><td>1</td><td>Balance b/d</td><td>4 230</td><td>1</td><td>Balance b/d</td><td>80</td></tr>
<tr><td>31</td><td>Credit sales</td><td>9 200 (1)</td><td>31</td><td>Bad debts</td><td>450 (1)</td></tr>
<tr><td></td><td>Bank/refund</td><td>300 (1)</td><td></td><td>Discount allowed</td><td>230 (1)</td></tr>
<tr><td></td><td>Interest charged</td><td>180 (1)</td><td></td><td>Returns inwards</td><td>740 (1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Bank/cash</td><td>8 000 (1)</td></tr>
<tr><td></td><td>Balance c/d</td><td>150</td><td></td><td>Balance c/d</td><td>4 560</td></tr>
<tr><td></td><td></td><td>14 060</td><td></td><td></td><td>14 060</td></tr>
<tr><td>August</td><td></td><td></td><td>August</td><td></td><td></td></tr>
<tr><td>1</td><td>Balance b/d</td><td>4 560 (1)of</td><td>1</td><td>Balance b/d</td><td>150 (1)</td></tr>
</table>
</td><td>9</td></tr>
<tr><td>2(b)</td><td>Returns made after payment (1)
Refund due after payment (1)
Payment made in advance (1)

Accept other valid points.

Max 1.</td><td>1</td></tr>
</table>

Question	Answer	Marks
2(c)	General Journal	**6**

	Debit	Credit
	$	$
Suspense	20 **(1)**	
Dipu		20 **(1)**
Arca	180 **(1)**	
Suspense		180 **(1)**
Discount allowed	30 **(1)**	
Suspense		30 **(1)**

Question	Answer	Marks
2(d)	Suspense account	4

Date	Details	$	Date	Details	$
2018 July 31	Balance b/d	190 **(1)of**	2018 July 31	Arca	180 **(1)**
	Dipu	20 **(1)**		Discount allowed	30 **(1)o/f**
		210			210

Question	Answer	Marks
3(a)	Debentures are a loan to the company. **(1)** They are not part of the equity of the company. **(1)**	**2**
3(b)	$\dfrac{\$21000}{300000 \text{ shares } \mathbf{(1)}}$ = \$0.07 (7 cents) per share **(1)**	**2**
3(c)	B Limited Extract from the Statement of Financial Position at 31 August 2018	**6**

	$	$	
Equity and reserves			
Ordinary shares of $0.50 each		150 000	**(1)**
General reserve	90 000		
Retained earnings	114 000		
		204 000	**(1)**
		354 000	**(1)**
Non-current liabilities			
6% Debenture		50 000	**(1)**
Current liabilities			
5% Bank loan (repayable 31 May 2019)	40 000 **(1)**		
Trade payables	73 000		
Other payables: (4 800 + 5 300)	10 100 **(1)**		
		123 100	
		527 100	

Question	Answer	Marks
3(d)	Retain cash in the business **(1)** For expansion **(1)** Purchase non-current assets **(1)** Retain working capital **(1)** To indicate that the general reserve is not reflected in liquid assets. **(1)** **Accept other valid points.** **Max 2**	**2**
3(e)	Ordinary shares — Preference shares Variable percentage of dividend — Maximum fixed rate of dividend Paid dividend after preference shares — Paid dividend before ordinary shares Last to receive capital in liquidation — Receive capital before ordinary shares in liquidation Two differences **(1)** mark for ordinary shares **(1)** mark for preference shares × 2 **Accept other valid points.**	**4**
3(f)	If there is insufficient profit to meet the full dividend on a cumulative preference share the shortfall can be carried forward to the following year. **(1)** If there is insufficient profit to meet the full dividend on a non-cumulative share the unpaid proportion cannot be carried forward to a subsequent year and will be lost. **(1)**	**2**

Question	Answer	Marks
3(g)	(see table below)	2

	Income statement	Statement of changes in equity	Statement of financial position
Ordinary dividend paid		✓	
Directors' salary	✓ **(1)**		
Other receivables			✓ **(1)**

Question	Answer	Marks
4(a)	Percentage mark-up $\frac{\text{Gross profit} \times 100}{\text{Cost of sales}}$ $\frac{60\,000\ \textbf{(1)}}{180\,000} \times 100 = 33.33\%$ **(1)of** Percentage profit for the year to revenue $\frac{\text{Profit} \times 100}{\text{Revenue}}$ $\frac{15\,000\ \textbf{(1)}}{240\,000} \times 100 = 6.25\%$ **(1)of** Return on capital employed (ROCE) $\frac{\text{Profit} \times 100}{\text{Capital employed}}$ $\frac{15\,000\ \}}{100\,000\ \}\textbf{(1)}} \times 100 = 15.00\%$ **(1)of**	**6**
4(b)	Linrae Income Statement for the year ended 30 September 2018 <table><tr><td></td><td>$</td><td></td><td>$</td><td></td></tr><tr><td>Revenue</td><td></td><td></td><td>308 000</td><td></td></tr><tr><td>Cost of sales</td><td></td><td></td><td>(220 000)</td><td>**(1)**</td></tr><tr><td>Gross profit</td><td></td><td></td><td>88 000</td><td>**(1) of**</td></tr><tr><td>Expenses (35 000 + 4 000 + 5 000)</td><td>44 000</td><td>**(1)**</td><td></td><td></td></tr><tr><td>Depreciation (10 000 + 2 000)</td><td>12 000</td><td>**(1)**</td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>(56 000)</td><td></td></tr><tr><td>Profit for the year</td><td></td><td></td><td>32 000</td><td></td></tr></table>	**4**
4(c)	The $32 000 profit for the year ended 30 September 2018 would increase the capital. **(1)** Reduced drawings would increase capital **(1).**	**2**
4(d)	Percentage profit for the year to revenue (profit margin) $\frac{\text{Profit} \times 100}{\text{Revenue}}$ $\frac{32\,000\ \textbf{(1)of}}{308\,000} \times 100 = 10.39\%$ **(1)of** Return on capital employed (ROCE) $\frac{\text{Profit} \times 100}{\text{Capital employed}}$ $\frac{32\,000\ \textbf{of} \times 100}{110\,000 + 50\,000\textbf{(1)}} = 20.00\%$ **(1)of**	**4**

Question	Answer	Marks
4(e)	Comments based upon own figures The mark-up has increased **(1)** Increased profit may be the result of increased sales**. (1)** The profit for the year has increased. **(1)** The percentage profit for the year to revenue has improved **(1)** The ROCE percentage has improved **(1)** even though the capital employed now includes a $50 000 bank loan. **(1)** **Accept other valid points.** **Max 4**	

Question	Answer	Marks
5(a)	Aung & Khin Income Statement and Appropriation Account for the year ended 30 September 2018	**20**

	$		$	
Revenue			309 000	
Less Returns			(9 100)	
			299 900	**(1)**
Opening inventory	19 700			
Plus Purchases	174 000			
	193 700			
Closing inventory	(36 000)			
Cost of sales			(157 700)	**(1)**
Gross profit			142 200	**(1)of**
Other income				
Commission receivable				
(12 250 +1 750)			14 000	**(1)**
			156 200	
Less expenses:				
Marketing expenses				
(25 000 – 4 000)	21 000	**(1)**		
Other operating expenses	17 250	**(1)**		
Wages and salaries				
(40 500 – 9 000)	31 500	**(1)**		
Motor vehicle expenses	9 200	**(1)**		
Rent	12 000	**(1)**		
Bank loan interest				
(3 600 + 1 200)	4 800	**(1)**		
Depreciation-				
Buildings	2 400	**(1)**		
Motor vehicles	8 000	**(1)**		
Office equipment	6 400	**(1)**		

Question	Answer					Marks
5(a)		$		$		
	Bad debts	5 000	**(1)**			
	Increase in provision for doubtful debts	800	**(1)**			
				118 350		
	Profit for the year			37 850		
	Interest on drawings:					
	Aung	450	**(1)**			
	Khin	700	**(1)**			
				1 150		
				39 000		
	Salary – Khin			(9 000)	**(1)**	
				30 000		
	Share of profit:					
	Aung	18 000	**(1)of**			
	Khin	12 000	**(1)of**	30 000		

Question	Answer	Marks
5(b)	Current accounts	**5**

Date	Details	Aung	Khin	Date	Details	Aung	Khin
Sept		$	$	Sept		$	$
30	Balance b/d	3 000		30	Balance b/d		6 000
	Drawings	9 000	14 000		Salary		9 000 **(1)**
	Int on drawings	450	700 **(1)of**		Profit share	18 000	12 000 **(1)of**
	Salary paid		9 000 **(1)**				
	Balance c/d	5 550	3 300				
		18 000	27 000			18 000	27 000
				Oct 1	Balance b/d	5 550	3 300 **(1)of**

*Both entries

Question	Answer	Marks
5(c)	Statement of Financial Position at 30 September 2018	15

	Cost	Accumulated depreciation	Book value	
Non-current assets	$	$	$	
Land and buildings	140 000	32 000	108 000	**(1)of**
Motor vehicles	42 000	18 000	24 000	**(1)of**
Office equipment	64 000	52 400	11 600	**(1)of**
	246 000	102 400	143 600	
Current assets				
Inventory		36 000 **(1)**		
Trade receivables (31 000 – 5 000)	26 000	**(1)**		
Less provision for doubtful debts	(1 300)			
		24 700 **(1)of**		
Other receivables (4 000 **(1)** + 1 750 **(1)**)		5 750		
			66 450	
Total assets			210 050	
		$	$	
Capital accounts:				
Aung		50 000		
Khin		50 000		
			100 000	
Current accounts:				
Aung		5 550		
Khin		3 300		
			8 850	**(1)of**
Non-current liability **(1)**				
8% Bank loan			60 000	**(1)**
Current liabilities				
Trade payables (45 200 – 6 800)		38 400 **(1)**		
Bank overdraft (5 200**(1)** – 6 800 **(1)**)		1 600		
Other payables		1 200 **(1)**		
			41 200	
Total capital and liabilities			210 050	