**Cambridge International Examinations**
Cambridge Ordinary Level

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|---|---|
| **PRINCIPLES OF ACCOUNTS** | **7110/21** |
| Paper 2 | **May/June 2017** |
| MARK SCHEME | |
| Maximum Mark: 120 | |

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**Published**

This document consists of **9** printed pages.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Adam account<br>
<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>April 11</td><td>Purchase returns</td><td>80</td><td>**(1)**</td><td>April 1</td><td>Balance b/d</td><td>1500</td><td></td></tr>
<tr><td>28</td><td>Bank</td><td>1455</td><td>**(1)**</td><td>April 9</td><td>Purchases</td><td>960</td><td>**(1)**</td></tr>
<tr><td></td><td>Discount received</td><td>45</td><td>**(1)**</td><td></td><td></td><td></td><td></td></tr>
<tr><td>30</td><td>Balance c/d</td><td>880</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>2460</td><td></td><td></td><td></td><td>2460</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>May 1</td><td>Balance b/d</td><td>880</td><td>**(1)of**</td></tr>
</table></td><td>**5**</td></tr>
<tr><td>1(b)</td><td>(i) Purchases journal / daybook **(1)**<br>(ii) Credit note **(1)**<br>(iii) Purchases **(1)**</td><td>**3**</td></tr>
<tr><td>1(c)(i)</td><td>Encourage purchases in bulk<br>To encourage regular custom<br>Allowed to businesses in same trade<br>To enable another trader to make a profit<br>Other valid answers accepted<br>One point × **(1)** mark</td><td>**1**</td></tr>
<tr><td>1(c)(ii)</td><td>Encourage swift payment<br>Encourage payment within the specified period of credit<br>To encourage payment by the due date<br>Other valid answers accepted<br>One point × **(1)** mark</td><td>**1**</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)</td><td>Cash Book (bank columns)
<table>
<tr><th>Date</th><th>Details</th><th>$</th><th>Date</th><th>Details</th><th>$</th></tr>
<tr><td>2017</td><td></td><td></td><td>2017</td><td></td><td></td></tr>
<tr><td>April 1</td><td>Balance b/d</td><td>490</td><td>April 11</td><td>XYZ Supplies Ltd</td><td>450</td></tr>
<tr><td>5</td><td>Rent receivable</td><td>200</td><td>14</td><td>West Electricity</td><td>325</td></tr>
<tr><td>18</td><td>Cash sales</td><td>640</td><td>17</td><td>The Repair Company</td><td>175</td></tr>
<tr><td>30</td><td>Cash sales</td><td>510</td><td>27</td><td>Cash</td><td>90</td></tr>
<tr><td>30</td><td>Commission</td><td>250 <b>(1)</b></td><td>28</td><td>Adam</td><td>1455</td></tr>
<tr><td></td><td>Dividend</td><td>15 <b>(1)</b></td><td>30</td><td>United utilities</td><td>150 <b>(1)</b></td></tr>
<tr><td></td><td>Balance c/d</td><td>540</td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td>2645</td><td></td><td></td><td>2645</td></tr>
<tr><td></td><td></td><td></td><td>May 1</td><td>Balance b/d</td><td>540 <b>(1 o/f))</b></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td></td></tr>
</table>
</td><td><b>4</b></td></tr>
<tr><td>1(e)</td><td>Bank Reconciliation Statement at 30 April 2017
<table>
<tr><th></th><th>$</th><th></th><th>$</th><th></th></tr>
<tr><td>Balance on bank statement</td><td></td><td></td><td>730</td><td>Credit</td></tr>
<tr><td>Plus</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Cash sales banked but not recorded</td><td>510</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>1240</td><td></td></tr>
<tr><td>Less</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Unpresented cheque: West Electricity</td><td>325</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td>Adam</td><td>1455</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>1780</td><td></td></tr>
<tr><td>Balance as per cash book</td><td></td><td></td><td>540</td><td>Credit <b>(1)of</b></td></tr>
</table>
</td><td><b>4</b></td></tr>
<tr><td>1(f)</td><td>Direct debit <b>(1)</b> is an arrangement which instructs the bank to transfer money from a person’s account on agreed dates. <b>(1)</b></td><td><b>2</b></td></tr>
<tr><td></td><td><b>Total:</b></td><td><b>20</b></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>General journal
<table>
<tr><td>Details</td><td>Dr</td><td></td><td>Cr</td><td></td></tr>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Drawings</td><td>500</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td>Bank</td><td></td><td></td><td>500</td><td><b>(1)</b></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Tung</td><td>270</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td>Sales</td><td></td><td></td><td>270</td><td><b>(1)</b></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Suspense</td><td>300</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td>Discount allowed</td><td></td><td></td><td>150</td><td><b>(1)</b></td></tr>
<tr><td>Discount received</td><td></td><td></td><td>150</td><td><b>both</b></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Wages</td><td>210</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td>General expenses</td><td></td><td></td><td>210</td><td><b>(1)</b></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Sales</td><td>800</td><td><b>(1)</b></td><td></td><td></td></tr>
<tr><td>Disposal / sale of non-current asset</td><td></td><td></td><td>800</td><td><b>(1)</b></td></tr>
</table></td><td><b>10</b></td></tr>
<tr><td>2(b)</td><td><table>
<tr><td colspan="5">Revision of profit for the year ended 31 March 2017</td></tr>
<tr><td></td><td></td><td>Increase</td><td>Decrease</td><td></td></tr>
<tr><td></td><td></td><td>$</td><td>$</td><td>$</td></tr>
<tr><td></td><td>Draft profit for the year</td><td></td><td></td><td>9200</td></tr>
<tr><td>1</td><td>No entries had been made in the books in respect of $500 which Hong had withdrawn from the bank for his personal use.</td><td>No effect <b>(1)</b></td><td></td><td></td></tr>
<tr><td>2</td><td>Goods sold on credit to Tung, $960, had been recorded in the sales journal as $690.</td><td>270 <b>(1)</b></td><td></td><td></td></tr>
<tr><td>3</td><td>Discount received, $150, had been debited to the discount allowed account.</td><td>300 <b>(1)</b></td><td></td><td></td></tr>
<tr><td>4</td><td>A payment of wages, $210, had been posted to the general expenses account.</td><td>No effect <b>(1)</b></td><td></td><td></td></tr>
<tr><td>5</td><td>A sale of fixtures and fittings, at book value of $800, received by cheque, had been recorded in the sales account.</td><td></td><td>800 <b>(1)</b></td><td></td></tr>
<tr><td></td><td></td><td>570</td><td>800</td><td></td></tr>
<tr><td></td><td>Revised profit for the year</td><td></td><td></td><td>8970<br><b>(1)of</b></td></tr>
</table></td><td><b>6</b></td></tr>
</table>

| Question | Answer | Marks |
|---|---|---|
| 2(c)(i) | Compensating error<br>There are two separate and independent errors in the books **(1)**<br>The effect of those errors is that combined they cancel each other out **(1)** | 2 |
| 2(c)(ii) | Error of principle<br>The entries are made using the correct amount and on the correct side **(1)**<br>One of the entries is posted incorrectly to the wrong class of account. **(1)** | 2 |
| | **Total:** | **20** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>B Limited<br>Statement of Changes in Equity for the year ended 30 April 2017
<table>
<tr><th></th><th>Ordinary share capital<br>$</th><th>General Reserve<br>$</th><th>Retained Profits<br>$</th><th>Total<br>$</th></tr>
<tr><td>Balance at 1 May 2016</td><td>150 000</td><td>75 000</td><td>410 000</td><td>635 000</td></tr>
<tr><td>Share issues</td><td>50 000 <b>(1)</b></td><td></td><td></td><td>50 000</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>90 000 <b>(1)</b></td><td>90 000</td></tr>
<tr><td>Transfer to general reserve</td><td></td><td>50 000 <b>(1)</b></td><td>(50 000)</td><td>-</td></tr>
<tr><td>Dividend paid(interim)</td><td></td><td></td><td>(10 000) <b>(1)</b></td><td>(10 000)</td></tr>
<tr><td>Dividend paid (final)</td><td></td><td></td><td>(20 000) <b>(1)</b></td><td>(20 000)</td></tr>
<tr><td>Balance at 30 April 2017</td><td>200 000</td><td>125 000 <b>(1 o/f)</b></td><td>420 000 <b>(1 o/f)</b></td><td>745 000 <b>(1 o/f)</b></td></tr>
</table></td><td>8</td></tr>
<tr><td>3(b)</td><td>B Limited<br>Statement of Financial Position (extract) at 30 April 2017
<table>
<tr><th></th><th>$</th><th></th><th>$</th><th></th></tr>
<tr><td>Equity and reserves</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Ordinary shares of $1 each</td><td></td><td></td><td>200 000</td><td></td></tr>
<tr><td></td><td></td><td></td><td>200 000</td><td><b>(1)</b></td></tr>
<tr><td>General reserve</td><td>125 000</td><td><b>(1)of</b></td><td></td><td></td></tr>
<tr><td>Retained profits</td><td>420 000</td><td><b>(1)of</b></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>545 000</td><td></td></tr>
<tr><td>Total equity</td><td></td><td></td><td>745 000</td><td><b>(1) w+f</b></td></tr>
<tr><td>Non-current liabilities</td><td></td><td></td><td>80 000</td><td><b>(1)</b></td></tr>
<tr><td>Debentures</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>825 000</td><td><b>(1)of</b></td></tr>
</table></td><td>6</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(c)</td><td>
<table>
<tr><th></th><th>Ordinary share capital</th><th>Preference share capital</th></tr>
<tr><td><b>1</b></td><td>If business wound up receive funds after liabilities and preference shares <b>(1)</b></td><td>If business wound up receive funds after liabilities <b>(1)</b></td></tr>
<tr><td><b>2</b></td><td>Second call on profits for dividend <b>(1)</b></td><td>First call on profits for dividend <b>(1)</b></td></tr>
<tr><td><b>3</b></td><td>No maximum dividend <b>(1)</b></td><td>Maximum percentage dividend <b>(1)</b></td></tr>
<tr><td><b>4</b></td><td>Voting rights <b>(1)</b></td><td>Not normally voting rights <b>(1)</b></td></tr>
</table>
Accept other valid points</td><td><b>Max 4</b></td></tr>
<tr><td>3(d)</td><td>Retains funds in the business <b>(1)</b><br>Funds retained for major expenditure such as purchasing non-current assets. <b>(1)</b><br>Profits ‘ploughed back’ for business to grow. <b>(1)</b><br>Profits held for emergencies / contingencies <b>(1)</b><br><b>2 points × (1)</b></td><td><b>Max 2</b></td></tr>
<tr><td></td><td><b>Total:</b></td><td><b>20</b></td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)(i)</td><td>Cost of sales $240\,000 \times \frac{100\ \mathbf{(1)}}{100+125} = \$192\,000$ <b>(1)</b></td><td><b>2</b></td></tr>
<tr><td>4(a)(ii)</td><td>Profit for the year 240 000 – 192 000 = 48 000 <b>(1)</b> – 35 000 =$ 13 000 <b>(1)</b></td><td><b>2</b></td></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th></th><th>Workings</th><th>31 March 2017</th><th>31 March 2016</th></tr>
<tr><td>Gross profit/sales (Gross profit margin)</td><td>$\frac{48\,000\ \mathbf{(1of)}}{240\,000} \times 100$</td><td>20.00% <b>(1 o/f)</b></td><td>15.00%</td></tr>
<tr><td>Rate of inventory turnover</td><td>$\frac{192\,000\ \mathbf{of}}{(27\,000 + 21\,000)/2\ \mathbf{(1)}}$</td><td>8 times <b>(1of)</b></td><td>5.33 times</td></tr>
<tr><td>Working capital ratio (Current ratio)</td><td>$\frac{21\,000 + 16\,000 + 2\,000\ \mathbf{(1)}}{20\,000}$</td><td>1.95:1 <b>(1)</b></td><td>3.15:1</td></tr>
<tr><td>Quick ratio (acid test ratio)</td><td>$\frac{16\,000 + 2\,000\ \mathbf{(1)}}{20\,000}$</td><td>0.9:1 <b>(1)</b></td><td>0.32:1</td></tr>
</table></td><td><b>8</b></td></tr>
<tr><td>4(c)</td><td>The profit margin <b>on each sales has increased</b> due to increased prices <b>(1)</b> / reduced costs <b>(1)</b> / or a change in product mix <b>(1).</b><br>The quick ratio has <b>improved</b> and is close to the <b>recommended levels of 1:1 (1).</b><br>This may be due to increase in bank account / trade receivables or reduction in current liabilities <b>(1).</b><br><br><b>(</b>1) Mark for commenting on each percentage or ratio and <b>(1)</b> mark for reason<br><b>Accept other valid points</b></td><td><b>Max 4</b></td></tr>
</table>

| **Question** | **Answer** | **Marks** |
|---|---|---|
| 4(d) | <table><tr><th></th><th colspan="3">Profit for the year</th><th colspan="3">Working capital</th></tr><tr><th></th><th>increase</th><th>decrease</th><th>no effect</th><th>increase</th><th>decrease</th><th>no effect</th></tr><tr><td>1</td><td></td><td></td><td>✓</td><td>✓</td><td></td><td></td></tr><tr><td>2</td><td>✓</td><td></td><td></td><td></td><td></td><td>✓</td></tr><tr><td>3</td><td></td><td>✓</td><td></td><td>✓</td><td></td><td></td></tr></table> | **4** |
| | **Total:** | **20** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>
Bik<br>Income statement for the year ended 28 February 2017
<table>
<tr><th></th><th>$</th><th>$</th><th>$</th><th></th></tr>
<tr><td>Revenue</td><td></td><td></td><td>410 000</td><td><b>(1)</b></td></tr>
<tr><td>Returns</td><td></td><td></td><td>(15 600)</td><td><b>(1)</b></td></tr>
<tr><td></td><td></td><td></td><td>394 400</td><td></td></tr>
<tr><td>Inventory 1 March 2016</td><td>24 050</td><td></td><td></td><td><b>(1)</b></td></tr>
<tr><td>Purchases</td><td>216 800</td><td></td><td></td><td><b>(1)</b></td></tr>
<tr><td>Returns</td><td>(9 550)</td><td></td><td></td><td><b>(1)</b></td></tr>
<tr><td></td><td></td><td>207 250</td><td></td><td></td></tr>
<tr><td></td><td></td><td>231 300</td><td></td><td></td></tr>
<tr><td>Inventory 30 Feb 2017</td><td></td><td>(20 700)</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Cost of sales</td><td></td><td></td><td>(210 600)</td><td><b>(1)of+w</b></td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>183 800</td><td></td></tr>
<tr><td>Plus</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Other income:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Rent receivable (15 000<b>(1)</b> + 3 000<b>(1)</b>)</td><td></td><td></td><td>18 000</td><td></td></tr>
<tr><td></td><td></td><td></td><td>201 800</td><td></td></tr>
<tr><td>Less expenses:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Administration expenses</td><td></td><td>71 000</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Insurance</td><td></td><td>6 800</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Electricity</td><td></td><td>10 200</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Staff salaries (59 700 <b>(1)</b> – 8 000 <b>(1)</b>)</td><td></td><td>51 700</td><td></td><td></td></tr>
<tr><td>Advertising expenses</td><td></td><td>27 500</td><td></td><td><b>(1)</b></td></tr>
<tr><td>General expenses (14 600 + 5 000)</td><td></td><td>19 600</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Depreciation:</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Leasehold buildings</td><td></td><td>4 500</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Shop fixtures</td><td></td><td>4 800</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Computers equipment</td><td></td><td>5 400</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Disposal</td><td></td><td>6 000</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Loan interest</td><td></td><td>4 800</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Bad debts</td><td></td><td>2 500</td><td></td><td><b>(1)</b></td></tr>
<tr><td>Increase in Provision for doubtful debts</td><td></td><td>500</td><td></td><td><b>(1)</b></td></tr>
<tr><td></td><td></td><td></td><td>(215 300)</td><td></td></tr>
<tr><td>Loss for the year</td><td></td><td></td><td>(13 500)</td><td></td></tr>
</table>
</td><td><b>23</b></td></tr>
</table>

| Question | Answer | Marks |
|---|---|---|
| 5(b) | Statement of Financial Position at 28 February 2017 | **(17)** |

| | $<br>Cost | $<br>Accumulated depreciation | $<br>Net book value | |
|---|---|---|---|---|
| Non-current assets | | | | |
| Leasehold buildings | 90 000 | 18 000 | 72 000 | **(1of)** |
| Shop fixtures | 32 000 | 18 800 | 13 200 | **(1of)** |
| Computer equipment | 60 000 | 47 400 | 12 600 | **(1of)** |
| | 182 000 | 84 200 | 97 800 | **(1)** |
| Current assets | | | | |
| Inventory | | 20 700 | | **(1)** |
| Trade receivables (34 500-2 500) | 32 000 | | | **(1)** |
| Less Provision for doubtful debts | (1 600) | | | |
| | | 30 400 | | **(1)of** |
| Other receivables | | 3 000 | | **(1)** |
| Bank<br>(20 500 **(1)** – 8 000 **(1)**) | | 12 500 | | |
| | | | 66 600 | |
| | | | 164 400 | |
| Capital at 1 March 2016 | | | 100 000 | |
| Loss for the year | | | (13 500) | **(1of)** |
| | | | 86 500 | |
| Drawings (9 500 **(1)** + 8 000 **(1)**) | | | (17 500) | |
| | | | 69 000 | |
| Current liabilities | | | | |
| Trade payables | | 25 600 | | **(1)** |
| Accruals (4 800 **(1)** + 5 000 **(1)**) | | 9 800 | | |
| 8% Bank loan (repayable 31 December 2017) | | 60 000 | | **(1)** |
| | | | 95 400 | |
| | | | 164 400 | |

| | | |
|---|---|---|
| | **Total:** | **40** |