

## **MARK SCHEME for the November 2004 question paper**

### **7110 PRINCIPLES OF ACCOUNTS**

**7110/02 Paper 2 (Structured), maximum raw mark 100**

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November 2004

**GCE O LEVEL**

MARK SCHEME

MAXIMUM MARK: 100

SYLLABUS/COMPONENT: 7110/02

PRINCIPLES OF ACCOUNTS  
Paper 2 (Structured)

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1 (a)

Dr		Vigo Cash Book		Cr			
		\$		\$			
July 31	Balance b/d	790	(1)	July 31	Dishonoured cheque - Parker	260	(1)
				31	Bank charges	20	(1)
	31 Dividend	<u>25</u>	(1)	31	Balance c/d	<u>535</u>	
		<u>815</u>				<u>815</u>	
Aug 1	Balance b/d	535	(1 of)				

[5]

(b) Vigo  
Bank Reconciliation Statement as at 31 July 2004

		\$	
Balance as per cash book	(1)	535	(1 of)
Add: unpresented cheque - Kings		<u>220</u>	(1)
		755	
Less: uncredited deposit		<u>200</u>	(1)
Balance as per bank statement	(1)	<u>555</u>	(1)

[6]

(c) The cash book is the book of original entry for cash and bank transactions, recorded from source documents like cheques and receipts. (1)

It contains ledger accounts for cash and bank. (1)

[2]

**Total marks [13]**

2 (a)

Category	Item	Correct Treatment
(i) Capital income	Income from sale of fixed assets (1)	It will reduce the fixed assets in the Balance Sheet (1)
(ii) Capital expenditure	Purchase of fixed assets (1)	It should appear as fixed assets in the Balance Sheet (1)
(iii) Revenue income	Discounts received (1)	It should appear as a credit in the Profit and Loss Account (1) <b>OR</b> be added to the gross profit in the Profit and Loss Account (1)
(iv) Revenue expenditure	Rent and rates (1)	It should appear as a debit in the Profit and Loss Account (1) <b>OR</b> be deducted from the gross profit in the Profit and Loss Account (1)

[8]

(b)

	\$	
Incorrect net profit	10 000	
<u>Add:</u> discounts received	900 (1)	
<u>Less:</u> rent and rates	(5 000) (1)	
<u>Add:</u> purchase of fixed assets	30 000 (1)	
<u>Less:</u> income from sale of fixed assets	<u>(20 000) (1)</u>	
Corrected net profit	<u>15 900</u> (1 of)	

[5]

Note: Accept any format

**Total marks**

[13]

3 (a) Accumulated Fund for the Mercury Sports Club at 1 August 2003.

	\$	\$
Fixtures and fittings		2 200
Stock		340
Cash/Bank		<u>490</u> (1)
		3 030 (1 of)
Rent owing	400 (1)	
Subscriptions in advance	75 (1)	<u>475</u>
		<u>2 555</u> (1 of)

[5]

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(b) Calculation of the profit made on the sale of refreshments.

	\$		\$
Sales			2 000 (1)
Opening stock	340 (1)		
Purchases	<u>1 400</u> (1)		
	1 740		
Less: closing stock	480 (1)		<u>1 260</u>
Profit from the sale of refreshments			<u>740</u> (1)

[5]

Note: Accept any format

(c) Subscriptions [75 (1) + 3 010 (1) + 100 (1)] = 3 185

[3]

(d) Receipts and Payments Account summarises cash transactions whereas the Income and Expenditure Account is accruals based

Receipts and Payments account indicates the cash/bank balance whereas the Income and Expenditure Account provides a calculation of the surplus/deficit for the period.

2 points, each identification (1) + development (2)

[6]

**Total marks [19]**

4 (a) Furley - ratios for 2003.

		2003	
Gross profit/sales	$\frac{200 - (10 + 110 - 20)}{200} \times 100$	50%	(2)
Net profit/sales	$\frac{200 - (10 + 110 - 20) - 50}{200} \times 100$	25%	(2)
Net profit/closing capital	$\frac{200 - (10 + 110 - 20) - 50}{80} \times 100$	62.5%	(2)
Rate of stock turnover	$\frac{10 + 110 - 20}{(10 + 20)/2}$	6.7 times	(2)

**OR**

**OR**

$$\frac{(10 + 20)/2}{10 + 110 - 20} \times 365 \quad 54.75 \text{ days} \quad (2)$$

[8]

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**(b)** Gross profit/sales  
 Direction of change (1 of)  
 Valid reason (1 of)

Net profit/sales  
 Direction of change (1 of)  
 Valid reason (1 of)

Net profit/closing capital  
 Direction of change (1 of)  
 Valid reason (1 of)

Rate of stock turnover  
 Direction of change (1 of)  
 Valid reason (1 of)

Accept any reasonable alternatives related to the figures in **(a)**.

**[8]**

**(c) Problems**

Inability to pay debts when due  
 Suppliers refuse to provide goods/services until payment received  
 Cheques returned by bank

Any 2 x 1 mark

**Solutions**

Introduction of new capital  
 Obtain loan  
 Sell fixed assets

Any 2 x 1 mark

NOT internal adjustments within constituents of working capital

**[4]**

**Total marks [20]**

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5 (a)

John Cosway  
Trading and Profit and Loss Account  
for the year ended 31 August 2004 (1)

	\$			\$
Stock at 1 September 2003	9 650	(1)	Sales	121 300 (1)
Purchases	67 600	(1)		
Carriage on purchases	<u>1 260</u>	(1)		
	78 510			
Less: stock at 31 August 2004	<u>11 200</u>	(1)		
Cost of goods sold	67 310			
Gross profit c/d	<u>53 990</u>	(1)		
	<u>121 300</u>			<u>121 300</u>
Wages and salaries			Gross profit b/d	53 990
[23 700(1) + 2 350(1)]	26 050		Discount received	460 (1)
Rent and rates			Rent received	1 750 (1)
[7 350 (1) - 150 (1)]	7 200			
Insurance	1 480	(1)		
Sundry expenses	10 760	(1)		
Provision for doubtful debts				
[4% x 11 250]	450	(2)		
Provision for depreciation:				
Fixtures and equipment	2 000	(1)		
Accountancy fees	1 500	(1)		
Net profit	<u>6 760</u>	(1)		
	<u>56 200</u>			<u>56 200</u>

Accept alternative format

[20]

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(b) Balance Sheet as at 31 August 2004 (1)

	\$	\$	\$		
Fixed Assets				Capital, 1 Sept 2003	29 000 (1)
Fittings and equipment (10 000 - 2 000)			8 000(1)	Net profit	<u>6 760</u> (1 of)
					35 760
Current Assets				Drawings	<u>18 220</u> (1)
Stock		11 200	(1)	Capital, 31 Aug 2004	17 540 (1)
Debtors	11 250			Current Liabilities	
Less: provision for doubtful debts	<u>450</u>	10 800	(2)	Creditors	7 200 (1)
Prepaid rent and rates	<u>150</u>	(1)		Bank overdraft	1 560 (1)
			22 150	Wages and salaries accrued	2 350 (1)
			<u>30 150</u>	Accountancy fee accrued	<u>1 500</u> (1)
					<u>12 610</u>
					<u>30 150</u>

(1) mark for acceptable layout

Accept alternative format

[15]

Total marks [35]