

## MARK SCHEME for the May/June 2007 question paper

### **7110 PRINCIPLES OF ACCOUNTS**

**7110/02**

Paper 2 (Structured), maximum raw mark 100

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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- 1 (a) (i) Evidence of purchase of goods on credit (1)  
OR  
Evidence of purchasing advertising (1)  
Purchases journal (1)  
General Journal (1) [max. 2]
- (ii) Evidence of a refund/reduction of amount owed (1)  
Purchases returns journal (1)  
(OR, appropriate comment) [max. 2]
- (iii) Evidence of payment for goods/services (1)  
Cash book (1)  
(OR, appropriate comment) [max. 2] [6]

(b) Sam Stryder  
Purchases Ledger Control Account

	\$			\$	
Purchases returns	940	(1)	Balance b/d	4 120	(1)
Bank	28 100	(1)	Purchases	29 900	(1)
Discounts received	760	(1)	Interest on		
Sales ledger control account	90	(1)	overdue account	10	(1)
Balance c/d	4 140	(2)/(1of)			
	<u>34 030</u>			<u>34 030</u>	

*Accept three-column format including headings Debit and Credit and opening and closing balances* [9]

- (c) To provide totals of sales/purchases (1)  
To provide totals of debtors/creditors (1)  
To locate errors (1)  
As a deterrent against fraud (1)  
Check on purchase/sales ledgers (1)  
Assist in preparation of final accounts from incomplete records (1)  
Audit staff efficiency (1) [max. 2]

**[Total: 17]**

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2 (a)

Carson Journal

2007			\$	\$
30 April	Bad debts Johnston		148 (1)	148 (1)
30 April	Bad debts Turner		640 (1)	640 (1)
30 April	Profit and loss account Provision for doubtful debts		936 (2)	936 (1of)

[7]

(b)

Iqbal

29 April	Balance b/d	<u>72</u>	30 April	Cash	<u>72 (1)</u>
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Johnston

29 April	Balance b/d	<u>148</u>	30 April	Bad debts	<u>148 (1)</u>
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Turner

29 April	Balance b/d	880	30 April	Bank	240 (1)
		<u>880</u>	30 April	Bad debts	<u>640 (1)</u>
					<u>880</u>

[4]

(c)

Profit and loss account for the year ended 30 April 2007

	Dr	CR
Expenses		
Bad debts	788 (1)	
Provision for doubtful debts	936 (1of)	

Balance Sheet as at 30 April 2007

Current assets			
Debtors	46 800	(1)	(No marks if bad debts shown in extract)
Less: provision for doubtful debts	<u>936</u>		
	45 864	(1of)	[4]

(d) Prudence/conservatism. (1)

Matching/accruals (1) [max. 1]

[1]

**[Total: 16]**

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**3 (a)** Calculation of goodwill

	\$		\$
Payment for business			18 000
Fixed assets	12 500	(1)	
Stock	2 400	(1)	
Debtors	1 300	(1)	
Bank	500		
	16 700		
Creditors	1 500	(1)	15 200
Goodwill			2 800 (1of)

*Accept any presentation*

[5]

**(b)**

Falcon  
Balance Sheet as at 30 April 2007

	\$		\$		
Goodwill	2 800	(1of)	Capital	100 000	(1)
Fixed assets	87 500	(1)	Creditors	20 500	(1)
Stock	16 900	(1)			
Debtors	10 800	(1)			
Bank	2 500	(1)			
	<u>120 500</u>			<u>120 500</u>	

*Accept alternative presentation*

[7]

**[Total: 12]**

4 (a)

	Workings			%
(i) Gross profit/sales	$\frac{110\,400}{368\,000}$	(1) (1)	x 100	30% (1of)
(ii) Net profit/sales	$\frac{25\,760}{368\,000}$	(1) (1of)	x 100	7% (1of)
(iii) Net profit/capital	$\frac{25\,760}{103\,040}$	(1of) (1)	x 100	25% (1of)

[9]

(b) (i) Gross profit/sales

This ratio is important in measuring success in selling goods (1)  
 The ratio can be compared against previous years (1)  
 The ratio can be compared against other businesses (1)  
 In Tom Martin's business 70% of sales income has been spent on cost of sales (1)

[max. 3]

(ii) Net profit/sales

This ratio measures the overall success of the organisation (1)  
 It can be compared against other businesses (1)  
 It can be compared against previous years (1)  
 Tom Martin's business has spent 23% of sales income on expenses (1)

[max. 2]

(iii) Net profit/capital at start of year

This measures the profitability of Tom Martin's business investment (1)  
 This can be compared year to year (1)  
 It can be compared with returns on other ways of investing the capital (1)  
 It can be compared with other businesses (1)

[max. 2]

(c)

	\$	\$	
Stock		14 700	
Debtors	26 500		
Less: provision for doubtful debts	1 900	24 600	(1)
Bank		<u>11 100</u>	
		50 400	(1)
Creditors		<u>28 200</u>	(1)
Working capital		22 200	(1of)

[4]

[Total: 20]

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5 (a)

Marie Delaney

Trading and Profit and Loss Account for the year ended 30 April 2007 (1)

	\$			\$	
Opening stock	8 620	(1)	Sales	197 600	(1)
Purchases	106 300	(1)			
Carriage on purchases	<u>2 450</u>	(1)			
	108 750				
	117 370				
Closing stock	9 920	(1)			
Cost of goods sold	107 450				
Gross profit c/d	<u>90 150</u>				
	197 600			<u>197 600</u>	
Wages and salaries			Gross profit b/d	90 150	(1)
(33 600 (1) + 3280 (1))	36 880		Discounts rec'd	680	(1)
Motor expenses	14 700	(1)			
Rent and rates					
(22 620 (1) – 1620 (1))	21 000				
Bank interest and charges	310	(1)			
Interest on loan	500	(2)			
Sundry expenses	9 600	(1)			
Provision for depreciation					
– fixtures and equipment					
(25% x 8440)	2 110	(1)			
– motor vehicles					
40% (12 400 – 4960)	2 976	(2)			
Net profit c/d	<u>2 754</u>	(1)			
	<u>90 830</u>			<u>90 830</u>	

Accept any recognisable layout

[21]

(b)

Marie Delaney

Balance Sheet as at 30 April 2007

	Cost	Depr'n		NBV			
Fixed assets					Capital	21 475	(1)
Fixtures and equipment	8 440	2 110	(1of)	6 330	Net profit	<u>2 754</u>	(1of)
Motor vehicles	<u>12 400</u>	<u>7 936</u>	(1of)	<u>4 464</u>		24 229	
	20 840	10 046		10 794	Drawings	<u>15 175</u>	(1)
						9 054	
Current assets					Long-term liability		
Stock		9 920			Loan – Keiley	8 000	(1)
Debtors		16 550					
Prepaid rent		<u>1 620</u>	(1)		Current liabilities		
					Loan – Keiley	2 000	(1)
				28 090	(1) Creditors	7 975	(1)
					Bank overdraft	8 450	(1)
					Accrued wages	3 280	(1of)
					Interest on loan accrued	<u>125</u>	(1)
				<u>38 884</u>		<u>21 830</u>	(1)
						<u>38 884</u>	

Accept any recognisable layout

[14]

[Total: 35]