
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.

Cambridge International is publishing the mark schemes for the October/November 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **13** printed pages.

PUBLISHED**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)	<p style="text-align: center;">Trial Balance at 31 August 2018</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Debit</th> <th style="text-align: center;">Credit</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">19 600</td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">9 800</td> <td></td> </tr> <tr> <td>Inventory</td> <td style="text-align: right;">870 (1)</td> <td></td> </tr> <tr> <td>Rent receivable</td> <td></td> <td style="text-align: right;">400 (1)</td> </tr> <tr> <td>Rent payable</td> <td style="text-align: right;">800</td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">230</td> <td></td> </tr> <tr> <td>Non-current assets (at cost)</td> <td style="text-align: right;">18 750</td> <td></td> </tr> <tr> <td>Provision for depreciation</td> <td></td> <td style="text-align: right;">3 970</td> </tr> <tr> <td>Bank overdraft</td> <td></td> <td style="text-align: right;">30 (1)</td> </tr> <tr> <td>Motor vehicle expenses</td> <td style="text-align: right;">650 (1)</td> <td></td> </tr> <tr> <td>Trade receivables</td> <td style="text-align: right;">2 990</td> <td></td> </tr> <tr> <td>Trade payables</td> <td></td> <td style="text-align: right;">1 090</td> </tr> <tr> <td>Capital</td> <td></td> <td style="text-align: right;">9 000</td> </tr> <tr> <td></td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> </tr> <tr> <td style="text-align: right;">Matching totals (1)of</td> <td style="text-align: right;"><u>34 090</u></td> <td style="text-align: right;"><u>34 090</u></td> </tr> </tbody> </table>		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>	5
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Question	Answer						Marks
1(b)	Computer maintenance expenses account						9
	Date	Details	\$	Date	Details	\$	
	Sept			Sept			
	1	Balance b/d	720 (1)	30	Income statement(1)	1400 (1)of	
	19	KK Computers	<u>750 (1)</u>		Balance c/d	<u>70</u>	
			<u>1470</u>			<u>1470</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>1200</u>			<u>1200</u>	
				Oct			
				1	Balance b/d	750 (1)of	

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)	<p style="text-align: center;">General Journal</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">Debit</th> <th style="text-align: center;">Credit</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Purchases</td> <td style="text-align: right;">3 600 (1)</td> <td></td> </tr> <tr> <td>PP Limited</td> <td></td> <td style="text-align: right;">3 600 (1)</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Direct wages</td> <td style="text-align: right;">1 200 (1)</td> <td></td> </tr> <tr> <td>Cash</td> <td></td> <td style="text-align: right;">1 200 (1)</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Office computer</td> <td style="text-align: right;">800 (1)</td> <td></td> </tr> <tr> <td>Direct expenses</td> <td></td> <td style="text-align: right;">800 (1)</td> </tr> </tbody> </table>		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)	6
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Question	Answer				Marks	
2(c)	East Town Decorators Departmental Trading Account for the 3 months ended 30 September 2018				11	
		Paint department		Wallpaper department		
		\$	\$	\$		\$
	Revenue		12 000			8 000
	Inventory 1 July 2018	2 300		1 800		
	Purchases	<u>5 600</u> (1)		<u>2 500</u> (1)		
		7 900		4 300		
	Inventory 30 September 2018	<u>(3 100)</u> (1)		<u>(1 600)</u> (1)		
	Cost of sales		<u>(4 800)</u> (1)			<u>(2 700)</u> (1)
			7 200			5 300
	Direct wages	4 000 (1)		3 200 (1)		
	Direct expenses	<u>2 400</u> (1)		<u>1 600</u> (1)		
			<u>(6 400)</u>			<u>(4 800)</u>
Profit		<u>800</u>		<u>500</u> (1) of*		

*Mark for both figures

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Question	Answer	Marks																																																																																
3(a)	<p>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)</p> <p>Max 2 points Accept other valid points.</p>	2																																																																																
3(b)	<p style="text-align: center;">Capital accounts</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Date</th> <th>Details</th> <th>Lodini</th> <th>Mathy</th> <th>Nanda</th> <th>Date</th> <th>Details</th> <th>Lodini</th> <th>Mathy</th> <th>Nanda</th> </tr> </thead> <tbody> <tr> <td>Aug</td> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td>Aug</td> <td></td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> <td style="text-align: center;">\$</td> </tr> <tr> <td>1</td> <td>Goodwill</td> <td style="text-align: right;">12 000 (1)</td> <td style="text-align: right;">12 000 (1)</td> <td style="text-align: right;">6 000 (1)</td> <td>1</td> <td>Balance</td> <td style="text-align: right;">25 000</td> <td style="text-align: right;">15 000</td> <td></td> </tr> <tr> <td></td> <td>Loan</td> <td style="text-align: right;">8 000 (1)</td> <td></td> <td></td> <td></td> <td>Bank</td> <td></td> <td></td> <td style="text-align: right;">10 000 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td>Goodwill</td> <td style="text-align: right;">15 000 (1)</td> <td style="text-align: right;">15 000 (1)</td> <td></td> </tr> <tr> <td></td> <td>Balance</td> <td style="text-align: right;"><u>20 000</u></td> <td style="text-align: right;"><u>18 000</u></td> <td style="text-align: right;"><u>4 000</u></td> <td></td> <td></td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> <td style="text-align: center;">_____</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>40 000</u></td> <td style="text-align: right;"><u>30 000</u></td> <td style="text-align: right;"><u>10 000</u></td> <td></td> <td></td> <td style="text-align: right;"><u>40 000</u></td> <td style="text-align: right;"><u>30 000</u></td> <td style="text-align: right;"><u>10 000</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td>1</td> <td>Balance</td> <td style="text-align: right;">20 000 (1)of *</td> <td style="text-align: right;">18 000</td> <td style="text-align: right;">4 000</td> </tr> </tbody> </table> <p>Alternative entries for goodwill: Nanda \$6000 Debit (1), Lodini \$3000 Credit (2), Mathy \$3000 Credit (2)</p> <p>*For all three balances</p>	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	<u>20 000</u>	<u>18 000</u>	<u>4 000</u>			_____	_____	_____			<u>40 000</u>	<u>30 000</u>	<u>10 000</u>			<u>40 000</u>	<u>30 000</u>	<u>10 000</u>						1	Balance	20 000 (1)of *	18 000	4 000	8
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3(c)	<p style="text-align: center;">Lodini, Mathy and Nanda Appropriation Account for the year ended 31 July 2018</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 20%; text-align: right;">\$</td> <td style="width: 20%;"></td> </tr> <tr> <td>Profit for the year (24 500(1) – 400(1))</td> <td></td> <td style="text-align: right;">\$ 24 100</td> </tr> <tr> <td>Plus Interest on drawings</td> <td></td> <td></td> </tr> <tr> <td> Lodini</td> <td style="text-align: right;">850</td> <td></td> </tr> <tr> <td> Mathy</td> <td style="text-align: right;">1 100</td> <td></td> </tr> <tr> <td> Nanda</td> <td style="text-align: right;"><u>600</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>2 550</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">26 650</td> </tr> <tr> <td>Less Interest on capital</td> <td></td> <td></td> </tr> <tr> <td> Lodini</td> <td style="text-align: right;">1 000</td> <td></td> </tr> <tr> <td> Mathy</td> <td style="text-align: right;">900</td> <td></td> </tr> <tr> <td> Nanda</td> <td style="text-align: right;"><u>200</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(2 100)</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">24 550</td> </tr> <tr> <td>Share of profit</td> <td></td> <td></td> </tr> <tr> <td> Lodini</td> <td style="text-align: right;">9 820</td> <td></td> </tr> <tr> <td> Mathy</td> <td style="text-align: right;">9 820</td> <td></td> </tr> <tr> <td> Nanda</td> <td style="text-align: right;"><u>4 910</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>24 550</u></td> </tr> </table>		\$		Profit for the year (24 500(1) – 400(1))		\$ 24 100	Plus Interest on drawings			Lodini	850		Mathy	1 100		Nanda	<u>600</u>				<u>2 550</u>			26 650	Less Interest on capital			Lodini	1 000		Mathy	900		Nanda	<u>200</u>				<u>(2 100)</u>			24 550	Share of profit			Lodini	9 820		Mathy	9 820		Nanda	<u>4 910</u>				<u>24 550</u>	8
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3(d)	<p>Accounting entity</p> <p>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)</p> <p>Max 2</p>	2																																																									

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4(a)	Working capital ratio $\frac{20\,000 + 50\,000 + 4\,000}{12\,000 + 25\,000} = 2.00 : 1 \text{ (1) OF } \text{ (1)}$ Quick ratio $\frac{50\,000 + 4\,000}{12\,000 + 25\,000} = 1.46 : 1 \text{ (1) OF } \text{ (1)}$	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 border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 20%; text-align: center;">Working capital \$</th> </tr> </thead> <tbody> <tr> <td>Sold non-current assets for cash \$1200</td> <td style="text-align: center;">+ 1200</td> </tr> <tr> <td>Trade receivables paid \$485 in full settlement of debts of \$500</td> <td style="text-align: center;">–15 (1)</td> </tr> <tr> <td>Converted \$2500 of the bank overdraft to a five year bank loan</td> <td style="text-align: center;">+2500 (1)</td> </tr> <tr> <td>Hema brought additional capital into the business: motor van \$900 and inventory \$600</td> <td style="text-align: center;">+600 (1)</td> </tr> </tbody> </table>		Working capital \$	Sold non-current assets for cash \$1200	+ 1200	Trade receivables paid \$485 in full settlement of debts of \$500	–15 (1)	Converted \$2500 of the bank overdraft to a five year bank loan	+2500 (1)	Hema brought additional capital into the business: motor van \$900 and inventory \$600	+600 (1)	3
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5(a)	<p style="text-align: center;">Shobi Income Statement for the year ended 30 September 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">265 000</td> </tr> <tr> <td>Inventory at 1 October 2017</td> <td style="text-align: right;">26 000 (1)</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">135 000</td> <td></td> </tr> <tr> <td>Carriage inwards</td> <td style="text-align: right;">3 100 (1)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>164 100</u></td> <td></td> </tr> <tr> <td>Returns outwards</td> <td style="text-align: right;">(8 200) (1)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>155 900</u></td> <td></td> </tr> <tr> <td>Drawings of goods</td> <td style="text-align: right;">(4 700) (1)</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>151 200</u></td> <td></td> </tr> <tr> <td>Inventory at 30 September 2018</td> <td style="text-align: right;">(19 500)</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td style="text-align: right;"><u>(131 700) (1)</u></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">133 300 (1)of</td> </tr> <tr> <td>Other incomes:</td> <td></td> <td></td> </tr> <tr> <td>Rent receivable (8500+ 150)</td> <td style="text-align: right;">8 650 (1)</td> <td></td> </tr> <tr> <td>Profit on disposal</td> <td style="text-align: right;">1 800 (1)</td> <td></td> </tr> <tr> <td>Decrease in provision for doubtful debts</td> <td style="text-align: right;">2 100 (1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>12 550</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">145 850</td> </tr> <tr> <td>Wages and salaries (41 000 + 1700)</td> <td style="text-align: right;">42 700 (1)</td> <td></td> </tr> <tr> <td>Motor vehicle expenses</td> <td style="text-align: right;">6 800 (1)</td> <td></td> </tr> <tr> <td>Rent payable (15 000 - 3000)</td> <td style="text-align: right;">12000 (1)</td> <td></td> </tr> <tr> <td>Bank interest</td> <td style="text-align: right;">3 000 (1)</td> <td></td> </tr> <tr> <td>Heat, light and power</td> <td style="text-align: right;">5 050 (1)</td> <td></td> </tr> <tr> <td>Advertising</td> <td style="text-align: right;">9 000 (1)</td> <td></td> </tr> <tr> <td>General expenses (17 700 + 2 600)</td> <td style="text-align: right;">20 300 (1)</td> <td></td> </tr> <tr> <td>Bad debt</td> <td style="text-align: right;">750 (1)</td> <td></td> </tr> <tr> <td>Provisions for depreciation-</td> <td></td> <td></td> </tr> <tr> <td> Leasehold premises</td> <td style="text-align: right;">12 000 (1)</td> <td></td> </tr> <tr> <td> Motor vehicles</td> <td style="text-align: right;">10 500 (1)</td> <td></td> </tr> <tr> <td> Fixtures and fittings</td> <td style="text-align: right;">1 900 (1)</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(124 000)</u></td> </tr> <tr> <td>Profit for the year</td> <td></td> <td style="text-align: right;"><u>21 850</u></td> </tr> </tbody> </table>		\$	\$	Revenue		265 000	Inventory at 1 October 2017	26 000 (1)		Purchases	135 000		Carriage inwards	3 100 (1)			<u>164 100</u>		Returns outwards	(8 200) (1)			<u>155 900</u>		Drawings of goods	(4 700) (1)			<u>151 200</u>		Inventory at 30 September 2018	(19 500)		Cost of sales		<u>(131 700) (1)</u>	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)				<u>12 550</u>			145 850	Wages and salaries (41 000 + 1700)	42 700 (1)		Motor vehicle expenses	6 800 (1)		Rent payable (15 000 - 3000)	12000 (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)				<u>(124 000)</u>	Profit for the year		<u>21 850</u>	20
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