

Centre Number	Candidate Number	Name
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/02**

Paper 2

October/November 2004

**1 hour 45 minutes**

Candidates answer on the Question Paper.  
Additional Materials: Multi-column Accounting Paper

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name on all the work you hand in.  
Write in dark blue or black pen in the spaces provided on the Question Paper.  
You may use a soft pencil for any diagrams, graphs or rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.  
Question 5 may be answered either in this booklet or on multi-column accounting paper.  
At the end of the examination, fasten all your work securely together.  
The number of marks is given in brackets [ ] at the end of each question or part question.  
You may use a calculator.  
Where layouts are to be completed, you may not need all the lines for your answer.  
The businesses mentioned in this question paper are fictitious.

For Examiner's Use	
1	
2	
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5	
<b>Total</b>	

This document consists of **10** printed pages and **2** lined pages.





- (b) Prepare a bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2004.

Vigo  
Bank Reconciliation Statement as at 31 July

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.....[6]

- (c) Explain how the cash book is **both** a book of prime entry **and** a ledger account.

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.....[2]

**[Total: 13]**

- 2 The following financial statements, *which contain errors*, were prepared by an inexperienced book-keeper.

Trading and Profit and Loss Account for the year ended 31 July 2004

	\$	\$
Sales		100 000
Income from sale of fixed assets		<u>20 000</u>
		120 000
Cost of goods sold		<u>60 000</u>
Gross profit		60 000
Sundry expenses	20 000	
Purchase of fixed assets	<u>30 000</u>	<u>50 000</u>
Net profit		<u>10 000</u>

Balance Sheet as at 31 July 2004

	\$	\$
Rent and rates paid		5 000
Stock		8 000
Debtors		2 000
Cash		<u>1 000</u>
		16 000
Creditors	1 100	
Discounts received	<u>900</u>	<u>2 000</u>
		<u>14 000</u>
Capital		10 000
Net profit		<u>10 000</u>
		20 000
Less: drawings		<u>6 000</u>
		<u>14 000</u>

**REQUIRED**

- (a) Identify the items of capital and revenue income and expenditure which have been incorrectly treated in the financial statements. Explain how each item should have been included in the financial statements.

	Category	Item	Correct Treatment
(i)	Capital income		
(ii)	Capital expenditure		

[8]

	Category	Item	Correct Treatment
(iii)	Revenue income		
(iv)	Revenue expenditure		

(b) Calculate the corrected net profit for the year ended 31 July 2004.

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.....[5]

**[Total: 13]**

3 Mercury Sports Club had the following balances at 1 August 2003.

	\$
Fixtures and fittings	2200
Stock of refreshments	340
Rent owing	400
Subscriptions in advance	75

The following is a summary of receipts and payments for the year ended 31 July 2004.

Receipts and Payments Account for the year ended 31 July 2004

	\$		\$
Balance at 1 August 2003	490	Rent	2900
Subscriptions	3010	Purchases of refreshments	1400
Sales of refreshments	2000	Sundry expenses	950
	<u>5500</u>	Balance c/d	<u>250</u>
			<u>5500</u>

On 31 July 2004

- The club held stock of refreshments costing \$480.
- Subscriptions in arrears amounted to \$100.
- The fixtures and fittings were valued at \$2000.

**REQUIRED**

(a) Calculate the accumulated fund of the Mercury Sports Club at 1 August 2003.

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[5]



4 Furley, a trader, provided the following information for the year ended 31 December 2003.

	\$
Sales	200 000
Purchases	110 000
Opening stock	10 000
Closing stock	20 000
Expenses	50 000
Closing Capital	80 000

**REQUIRED**

(a) Calculate the following ratios for 2003. Place your answers in the table below. Use the space provided for your workings.

<b>Workings</b>
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	2002	2003
(i) Gross profit/sales	37.5%	.....
(ii) Net profit/sales	20%	.....
(iii) Net profit/closing capital	50%	.....
(iv) Rate of stock turnover	6.7 times	.....

[8]



**(b)** Describe the changes between 2002 and 2003 in Furley's business as shown by the four ratios in **(a)**. Suggest reasons for any changes.

**(i)** Gross profit/sales

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**(ii)** Net profit/sales.....

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**(iii)** Net profit/closing capital.....

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**(iv)** Rate of stock turnover.....

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[8]

**(c)** Identify **two** problems a business may have if current liabilities are greater than current assets. Suggest a possible solution for each problem.

Problem 1 .....

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Solution 1 .....

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Problem 2.....

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Solution 2 .....

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[4]

[Total: 20]

**Answer Question 5 on pages 11 and 12 or on separate multi-column accounting paper.**

- 5 John Cosway is a trader. The following balances were extracted from his books on 31 August 2004.

	\$
Purchases	67 600
Sales	121 300
Wages and salaries	23 700
Rent and rates paid	7 350
Insurance	1 480
Carriage on purchases	1 260
Discounts received	460
Sundry expenses	10 760
Rent received	1 750
Debtors	11 250
Creditors	7 200
Bank overdraft	1 560
Stock at 1 September 2003	9 650
Capital at 1 September 2003	29 000
Fixtures and equipment at cost	10 000
Drawings	18 220

## Additional information

1. Stock at 31 August 2004 was valued at \$11 200.
2. At 31 August 2004 rates prepaid were \$150.
3. Wages and salaries of \$2350 were accrued at 31 August 2004.
4. Accountancy fees of \$1500 for the year are accrued at 31 August 2004.
5. A provision for doubtful debts of 4% of debtors at 31 August 2004 is to be created.
6. Fixtures and equipment are to be depreciated by \$2000 for the year.

**REQUIRED**

- (a) Prepare the Trading and Profit and Loss Accounts of John Cosway for the year ended 31 August 2004. [20]
- (b) Prepare the Balance Sheet of John Cosway as at 31 August 2004. [15]

**[Total: 35]**



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