UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

0094034645

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 **May/June 2012**

2 hours

Candidates answer on the Question Paper.

No Additional Materials are required.

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.
You may use a soft pencil for any diagrams or graphs.
Do not use staples, paper clips, highlighters, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.
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.

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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

This document consists of **13** printed pages, **6** lined pages and **1** blank page.

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1 Giorgos commenced business on 1 May 2012 with the following assets and liabilities.

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	$
Bank loan	6 000
Bank	1 000 Dr
Cash	600
Premises	15 000
Inventory	1 800
Trade payable – Early Ltd	1 200

REQUIRED

(a) Complete the opening trial balance showing clearly the value of the capital.

Giorgos
Trial Balance at 1 May 2012

	Debit	Credit
	$	$
Bank loan		
Bank		
Cash		
Premises		
Inventory		
Trade payable – Early Ltd		
Capital		

[2]

The following were some of the transactions completed in early May:

May 1 Paid Early Ltd $570, after deducting $30 cash discount
May 2 Bought office furniture on credit for $3000
May 3 Paid wages in cash, $250
May 4 Customer returned goods selling price $745 (cost price $630)

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REQUIRED

(b) Complete the following table for the above transactions. The first item has been completed as an example. State clearly if there is no effect on owner's capital.

		Source document	Book of prime entry	Effect on owner's capital
May 1	Paid Early Ltd $570, after deducting $30 cash discount	*Cheque counterfoil*	*Cash book*	*+$30*
May 2	Bought office furniture on credit for $3000			
May 3	Paid wages in cash, $250			
May 4	Customer returned goods selling price $745 (cost price $630)			

[9]

(c) Prepare the account of Early Ltd. Balance the account on 31 May 2012 and bring down the balance.

Early Ltd account

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....[3]

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(d) On 31 May 2012 Giorgos prepared another trial balance.

State **one** use of a trial balance.

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....[2]

Giorgos is considering the use of Information Communication Technology (ICT) to record his books of account.

(e) State **three** benefits to Giorgos of using Information Communication Technology (ICT).

1 ....

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2 ....

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3 ....

....[3]

[Total: 19]

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2 Haung's income statement showed a draft profit for the year of $15 500. After completion of the income statement the following errors were discovered:

1. Purchases of goods on credit from Takka, $4000, had been omitted from the books.
2. Goods sold on credit to Nolan, $380, had been posted to the account of North.
3. Discount received, $3050, had been debited to the discount received account.
4. A debt of $375, owing by Long, was considered irrecoverable. No entries had been made in the books.

REQUIRED

(a) Prepare the journal entries to correct the errors 1 – 4 above. Narratives are **not** required.

Journal

	Dr	Cr
	$	$

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....[8]

(b) Prepare a statement showing the corrected profit for the year.

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Statement of revised profit

		$	$	$	$
	Draft profit for year				15 500
		Increase	Decrease	No effect	
1					
2					
3					
4					
	Revised profit for year				

[4]

Haung is considering a number of possible actions when preparing his future income statements.

(i) Charging the income statement with the total cost of non-current assets purchased in the year.

(ii) Recording the value of the increased skill of the workforce as an income for the year.

(iii) Changing the method of depreciation to be used for each non-current asset to reflect current market values.

REQUIRED

(c) State, in **each** of **(i)** to **(iii)** above, which accounting concept would be broken if Haung implemented his proposals. In each case, give a reason for your answer.

(i) Accounting concept

.... [1]

Reason

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.... [2]

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(ii) Accounting concept

.... [1]

Reason

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.... [2]

(iii) Accounting concept

.... [1]

Reason

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.... [2]

[Total: 21]

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3 Dang Ltd had the following balances in its books after the calculation of the profit for the year ended 31 March 2012:

	$
Profit for the year (before debenture interest)	60 000
Issued and called up share capital:	
100 000 6% $0.50 Preference shares	50 000
100 000 $1 Ordinary shares	100 000
7% Debentures 31 December 2020	200 000
General reserve	60 000
Retained profit 1 April 2011	21 000

Additional information

The directors decided to:
1 transfer $25 000 to the general reserve
2 pay the preference share dividend
3 pay an ordinary share dividend of $0.10 per share.

REQUIRED

(a) Prepare the appropriation account for Dang Ltd for the year ended 31 March 2012.

Dang Ltd
Appropriation Account for the year ended 31 March 2012

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For Examiner's Use

(b) Prepare the balance sheet extract for the capital and reserves of Dang Ltd at 31 March 2012.

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....[6]

(c) State **one** difference between ordinary shares and preference shares.

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....[2]

(d) State **one** difference between preference shares and debentures.

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....[2]

(e) State **one** reason why International Accounting Standards are used.

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....[2]

[Total: 20]

4 Jones is a trader, buying and selling goods on credit. The following balances were available on 30 April 2012.

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	$
Capital	350 000
Revenue	200 000
Expenses	40 000
Inventory 30 April 2012	25 000
Trade payables	50 000
Trade receivables	47 000
Bank overdraft	10 000
Net profit/sales	15%

REQUIRED

(a) Calculate the cost of sales. Show your workings.

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....[5]

(b) Calculate, to two decimal places, the following ratios:

(i) Percentage net profit/capital

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....[3]

(ii) Working capital ratio (current ratio)

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....[3]

(iii) Quick ratio (acid test)

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....[3]

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Jones has been considering how he might improve his working capital ratio (current ratio). The following proposals have been made.

1 Obtain a long term loan from the bank, $5000.

2 Pay half the trade payables in exchange for a cash discount of 4%.

3 Sell non-current assets with a net book value of $12 000 for $8000.

REQUIRED

(c) Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio). The first item has been completed as an example.

	Current assets	Current liabilities	Working capital ratio (current ratio)
1	*+$5 000*	*No effect*	*Increase*
2			
3			

[6]

[Total: 20]

5 Su and Li are in partnership sharing profits and losses in the ratio 3:2. Interest is allowed on capital at the rate of 5% per annum. Su is entitled to a salary of $15 000 per annum. The following balances were extracted from the books on 30 April 2012:

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	$
Land and buildings (cost)	200 000
Equipment (cost)	48 000
Fixtures and fittings (cost)	35 000
Provisions for depreciation:	
Land and buildings	14 000
Equipment	12 000
Fixtures and fittings	26 000
Revenue	380 000
Inventory at 1 May 2011	53 750
Purchases	170 000
Returns from customers	11 100
Returns to suppliers	8 900
Carriage outwards	6 290
Administration expenses	25 720
Marketing expenses	17 800
Wages and salaries	69 530
Communication expenses	8 900
Loan interest paid	3 600
Building works	24 000
6% Loan repayable 31 December 2020	80 000
Trade receivables	58 000
Provision for doubtful debts	2 500
Trade payables	20 340
Bank deposit	5 000
Bank	9 150 Cr
Capital accounts:	
Su	120 000
Li	100 000
Current accounts:	
Su	500 Cr
Li	2 700 Dr
Drawings:	
Su	20 000
Li	14 000

Additional information

1 Inventory at 30 April 2012, $38 500.

2 The $15 000 salary paid to Su had been posted to the wages and salaries account and not to her drawings account.

3 Building works consisted of an extension to the building, $20 000, and repairs to the existing air conditioning, $4000.

4 At 30 April 2012 communication expenses, $890, were prepaid and marketing expenses, $4000, were accrued.

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5 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

(i) Buildings at the rate of 2% per annum on cost. No depreciation is charged on land. On 1 April 2011 the land was valued at $75 000.

(ii) Equipment at the rate of 20% per annum using the diminishing (reducing) balance method.

(iii) Fixtures and fittings at the rate of 10% using the straight-line method.

6 Trade receivables contain a debt of $3000 which is considered irrecoverable.

7 The provision for doubtful debts is to be maintained at 6% of remaining trade receivables.

REQUIRED

(a) Prepare the income statement and appropriation account of Su and Li for the year ended 30 April 2012. [22]

(b) Prepare the balance sheet of Su and Li at 30 April 2012. [18]

The current accounts details may be included within the balance sheet or in account format outside the balance sheet.

[Total: 40]

Answer Question 5 on the following pages.

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For Examiner's Use

For Examiner's Use

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