UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

0027950379

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 **October/November 2012**

2 hours

Candidates answer on the Question 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.
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.

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1	
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Total	

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

DC (KN) 50371/3

UNIVERSITY *of* CAMBRIDGE International Examinations

[Turn over

1 The following balances were taken from the books of Asir on 1 July 2012.

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	$
Stationery	60 Dr
Rapid Office Supplies	400 Cr

The following transactions took place in the three months ended 30 September 2012:

July 30	Paid the balance owing on 1 July 2012 to Rapid Office Supplies by cheque, after deducting 4% cash discount.
August 18	Purchased stationery on credit from Rapid Office Supplies, list price $500, and received 10% trade discount.
August 20	Purchased stationery for cash, $150.
September 3	Returned to Rapid Office Supplies stationery purchased on 18 August, list price $50.

Asir prepared his financial statements on 30 September 2012. On that date inventory of stationery was valued at $225.

REQUIRED

(a) State the meaning of the debit balance on the stationery account on 1 July 2012.

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....[1]

(b) Prepare the following ledger accounts. Balance the accounts at 30 September 2012 and show the transfer to the income statement where appropriate.

Stationery account

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Rapid Office Supplies account

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.... [9]

(c) State the document sent by Rapid Office Supplies to Asir for the:

(i) Purchase of stationery on 18 August 2012

.... [1]

(ii) Return of stationery on 3 September 2012.

.... [1]

(d) On 30 September 2012 Asir extracted a trial balance and prepared his financial statements. State the amount for stationery which would appear in **each** of the following:

	$
Trial balance	
Income statement	
Balance sheet	

[3]

(e) State the section of Asir's balance sheet on 30 September 2012 in which the following balances would appear:

(i) Stationery

.... [1]

(ii) Rapid Office Supplies

.... [1]

(f) **(i)** Explain why Asir did not transfer all of the stationery purchased in the three month period to the income statement.

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....[2]

(ii) Name the accounting concept applied by Asir.

....[1]

[Total: 20]

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2 On 31 August 2011 the following extract was taken from the balance sheet of Stavros.

Non-current assets	Cost	Accumulated depreciation	NBV
	$	$	$
Equipment	60 000	24 000	36 000
Office Computers	8 000	5 600	2 400
	68 000	29 600	38 400

The following transactions took place during the year ended 31 August 2012:

1 On 31 January 2012, equipment purchased on 1 April 2009, at a cost of $28 000, was sold for $10 000. Payment was received by cheque.

2 On 1 February 2012, new equipment was purchased at a cost of $35 000.

3 On 20 March 2012, office computers were purchased for $600.

Stavros has the following depreciation policy:

Equipment is depreciated at the rate of 20% per annum using the straight-line method.

Office computers are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

A full year's depreciation is charged on equipment and office computers in the year of purchase.

No depreciation is charged on equipment in the year of sale.

REQUIRED

(a) (i) Explain the term depreciation.

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.... [2]

(ii) State **two** causes of depreciation.

1 ....

2 .... [2]

(b) State **one** advantage of using the straight-line method of depreciation.

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.... [2]

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(c) Prepare the following ledger accounts for the year ended 31 August 2012:

(i) Provision for depreciation of equipment account

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(ii) Equipment disposal account

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.... [8]

(d) Complete the following balance sheet (extract) for the non-current assets on 31 August 2012.

Non-current assets	Cost	Accumulated depreciation	NBV
	$	$	$
Equipment			
Office Computers			

[6]

[Total: 20]

3 Sandar Manufacturing makes a single product.

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The following balances were extracted from the books at the end of the financial year on 30 September 2012:

	$
Inventory at 1 October 2011:	
Raw materials	17 500
Work in progress	24 000
Finished goods	50 000
Purchases of raw materials	82 600
Carriage	12 000
Production wages	75 000
Office wages	35 000
Sundry office expenses	14 500
Production manager's salary	20 500
Factory rent, rates and power	18 400
Royalties	9 000
General factory expenses	15 200
Premises maintenance	40 000
Factory machinery (at cost)	120 000
Factory machinery – provision for depreciation	70 000
Inventory at 30 September 2012:	
Raw materials	16 300
Work in progress	29 000
Finished goods	46 000

Additional information at 30 September 2012:

1 60% of the carriage relates to raw materials and 40% to goods sold.

2 General factory expenses owing $400.

3 70% of the maintenance relates to the factory premises and 30% to the office premises.

4 Factory machinery is depreciated at the rate of 15% per annum using the diminishing (reducing) balance method.

REQUIRED

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(a) Prepare the manufacturing account for the year ended 30 September 2012. Clearly label the prime cost and cost of production.

Sandar Manufacturing

Manufacturing Account for the year ended 30 September 2012

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....[16]

(b) Explain the term direct cost.

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....[2]

(c) Give **one** example of a direct cost from the balances on page 7.

....[2]

[Total: 20]

4 The trial balance of Maya, after the calculation of the gross profit, was as follows:

Maya
Trial Balance at 30 September 2012

	Dr $	Cr $
Gross profit		120 000
Sundry expenses	57 000	
Non-current assets (cost)	400 000	
Non-current assets (provision for depreciation)		82 000
Trade receivables	55 000	
Trade payables		85 000
Inventory at 30 September 2012	125 000	
Cash	5 000	
Bank loan (repayable 31 October 2012)		35 000
Capital		320 000
	642 000	642 000

Additional information for the year ended 30 September 2012:

1 Mark-up on cost of sales, 25%.

2 Depreciation for the year on non-current assets, $15 000.

REQUIRED

(a) Calculate the following for the year ended 30 September 2012:

(i) Revenue (sales)

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.... [3]

(ii) Net profit/sales percentage

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.... [3]

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(iii) Net profit/capital percentage

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.... [3]

(iv) Quick ratio (acid test)

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.... [3]

(b) Explain to Maya why the quick ratio (acid test) is a better measure of liquidity than the working capital ratio (current ratio).

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.... [2]

(c) Comment upon the adequacy of Maya's cash for the next three months. Give **one** reason for your comment.

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Reason

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.... [3]

(d) Suggest **three** ways in which Maya might increase the cash in the business.

1 ....

2 ....

3 .... [3]

[Total: 20]

5 Maria is in business as a retailer. The following balances were extracted from her books on 30 September 2012.

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	$	
Capital at 1 October 2011	180 000	
Drawings	21 000	
Land and buildings at cost	150 000	
Fixtures and fittings at cost	28 000	
Computer equipment at cost	40 000	
Provisions for depreciation:		
Land and buildings	10 000	
Fixtures and fittings	19 000	
Computer equipment	12 000	
8% Bank loan repayable 31 December 2020	50 000	
Loan interest paid	2 000	
Bank	14 070	Dr
Trade receivables	60 000	
Trade payables	31 000	
Provision for doubtful debts	6 400	
Revenue	365 000	
Purchases	135 000	
Goods returned by customers	8 900	
Purchase returns	4 250	
Inventory at 1 October 2011	33 500	
Delivery expenses	18 630	
Computer repairs expenses	19 150	
General running expenses	31 600	
Salaries and wages	86 700	
Marketing costs	14 000	
Discount allowed	22 400	
Discount received	7 300	

Additional information

1 Inventory at 30 September 2012 was valued at $36 450.

2 An invoice for a credit purchase of goods, $7500, had been misplaced in December and no entries had been recorded in the books.

3 The purchase of fixtures and fittings, $4000, had been included in the general running expenses.

4 At 30 September 2012 computer repair expenses, $1700, were accrued and salaries and wages were prepaid, $5200.

5 The 8% bank loan was received on 1 January 2012.

6 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 using the straight-line method. No depreciation is charged on land. The land was valued at cost, $50 000.

(ii) Fixtures and fittings at the rate of 15% per annum using the straight-line method.

(iii) Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.

7 A provision for doubtful debts is to be maintained on trade receivables. Debts up to 3 months old at the rate of 4%, debts over 3 months old at the rate of 8%. One-quarter of the trade receivables are over 3 months old.

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2012. [22]

(b) Prepare the balance sheet at 30 September 2012. [18]

[Total: 40]

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Answer Question 5 on the following pages.

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