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CENTRE
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PRINCIPLES OF ACCOUNTS

7110/22

Paper 2

October/November 2014

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 an HB pencil for any diagrams or graphs.

Do not use staples, paper clips, 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.

This document consists of **18** printed pages and **2** blank pages.

The following related to the purchase of telephone services for the three months to 31 July 2014.

- 31 May Paid Midland Telecoms' balance on 1 May 2014 by cheque.
- 26 June Received a telephone bill from Midland Telecoms \$1200.
- 15 July Paid telephone bill received on 26 June by cheque less 2% cash discount.
- 31 July Prepared an income statement for the three months to 31 July 2014. It was estimated that \$130 was owing.

REQUIRED

(b) Prepare the following ledger accounts for the three months to 31 July 2014.

Midland Telecoms account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
| | | | | | |
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[5]

Telephone expenses account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
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| | | | | | |
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[4]

(c) Name and explain the accounting concept applied in estimating the telephone expenses owing on 31 July 2014.

Accounting concept

.....

Explanation

.....

.....[3]

The following were some of the transactions which took place in July.

| | |
|---------|--|
| 5 July | Purchased inventory on credit. |
| 10 July | Goods returned by a credit customer. |
| 20 July | Paid wages in cash. |
| 25 July | Disposed of fixtures and fittings on credit. |

REQUIRED

- (d) Complete the following table for the above transactions naming the source document prepared by Maria and the book of prime entry used. The first item has been completed as an example.

| | Source document | Book of prime entry |
|---------|-------------------------|--------------------------|
| 5 July | <i>Purchase invoice</i> | <i>Purchases journal</i> |
| 10 July | | |
| 20 July | | |
| 25 July | | |

[6]

[Total: 20]

- 2 Ajib commenced business on 1 October 2014 delivering parcels to customers' homes. He purchased a motor van on that date, the details are as follows.

| | |
|-------------------|---------|
| Purchase price | \$9600 |
| Life of motor van | 3 years |
| Residual value | \$1200 |

Ajib is undecided whether to use the straight-line method or diminishing (reducing) balance method to depreciate the motor van.

If Ajib uses the diminishing (reducing) balance method the annual rate of depreciation charged would be 50%.

REQUIRED

- (a) Explain the term depreciation.

.....

[2]

- (b) Complete the following table to show the depreciation to be charged for the years ended 30 September 2015, 2016 and 2017 using the straight-line method and the diminishing (reducing) balance method.

| For the year ended | Straight-line method \$ | Diminishing (reducing) balance method \$ |
|--------------------|----------------------------|--|
| 30 September 2015 | | |
| 30 September 2016 | | |
| 30 September 2017 | | |

[6]

- (c) State **one** advantage of Ajib using the straight-line method when depreciating the motor van.

.....
[1]

(d) State **one** advantage of Ajib using the diminishing (reducing) balance method when depreciating the motor van.

.....
.....[1]

Ajib is considering:

Proposal 1 Charging the total purchase price of the motor van to the 2015 income statement.

Proposal 2 Using the diminishing (reducing) balance method to charge depreciation on the motor van in 2015, and then to change to the straight line method for 2016 and 2017.

REQUIRED

(e) Name and explain which accounting concept would **not** be complied with if Ajib implemented his proposals.

Proposal 1

Accounting concept

Explanation

.....

Proposal 2

Accounting concept

Explanation

.....

[6]

Ajib also incurred the following expenditure.

- 1 Delivery of motor van from manufacturer
- 2 Fuel for motor van
- 3 Signwriting his business name on the motor van
- 4 Motor van insurance

REQUIRED

(f) State whether each of the items above is capital expenditure or revenue expenditure.

- 1
- 2
- 3
- 4

[4]

[Total: 20]

3 Basir is the owner of the Korner Café. He does not maintain full double entry books, but has provided the following information for the year ended 30 September 2014.

| | | Bank account | |
|----------------|---------------|------------------------------|---------------|
| | | \$ | \$ |
| Balance b/d | 4 000 | Rent of café | 5 500 |
| Takings banked | 43 200 | Payments to credit suppliers | 17 800 |
| | | Operating expenses | 13 600 |
| | | Fixtures and fittings | 450 |
| | | Bank loan interest | 250 |
| | | Balance c/d | 9 600 |
| | <u>47 200</u> | | <u>47 200</u> |
| Balance b/d | 9 600 | | |

Additional information

1 All takings were in cash and were banked on the same day with the exception of:

| | \$ |
|----------------|--------|
| Staff wages | 14 900 |
| Drawings | 8 000 |
| Cash purchases | 950 |

| 2 Balances at: | 1 October 2013 | 30 September 2014 |
|--------------------------------------|----------------|-------------------|
| | \$ | \$ |
| Trade payables | 1 150 | 1 430 |
| Inventory | 350 | 720 |
| Rent of café prepaid | 500 | – |
| Rent of café accrued | – | 1 000 |
| 7% Bank loan | 5 000 | 5 000 |
| Bank loan interest accrued | – | 100 |
| Fixtures and fittings (at valuation) | 2 250 | 2 200 |

REQUIRED

(a) State **two** advantages of maintaining full double entry records.

1.....

 2.....
[2]

(b) Calculate the total purchases for the year ended 30 September 2014.

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[5]

(c) Calculate the revenue for the year ended 30 September 2014.

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[3]

Question 4 is on the next page.

4 The following information relates to the business of Lili.

| | |
|-----------------------------|---------|
| | \$ |
| Revenue | 200 000 |
| Inventory 1 October 2013 | 15 500 |
| Inventory 30 September 2014 | 24 500 |
| Rate of inventory turnover | 8 times |
| Net profit/sales | 7% |

REQUIRED

(a) Calculate the following.

| | Workings | Answer |
|----------------------------------|----------|--------|
| cost of sales | | |
| purchases | | |
| percentage gross profit to sales | | |
| expenses | | |
| profit for the year | | |

[14]

Lili's inventory of \$24 500 needs to be adjusted for the following.

- 1 5 items costing \$10 each had been omitted from the inventory.
- 2 10 items costing \$25 each were damaged and could only be sold for \$15 each.
- 3 4 items were included in the inventory at the list price of \$300 each, having been marked up by 50%.
- 4 1 item costing \$20 was recorded in error in the inventory as \$200.

REQUIRED

- (b) Complete the following table showing the effect that **each** adjustment will have upon the inventory valuation at 30 September 2014. The first item has been completed as an example.

| Adjustment | Effect on inventory value | | Value \$ |
|------------|---------------------------|----------|-------------|
| | increase | decrease | |
| 1 | ✓ | | <i>50</i> |
| 2 | | | |
| 3 | | | |
| 4 | | | |

[6]

[Total: 20]

- 5 Darius and Edgar are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2. Interest on capital is allowed at the rate of 5% per annum. Edgar is entitled to a salary of \$12 000 per annum. The following balances were extracted from the books on 31 July 2014.

| | \$ | |
|--|---------|----|
| Leasehold buildings (cost) | 75 000 | |
| Motor vehicles (cost) | 40 000 | |
| Fixtures and fittings (cost) | 25 000 | |
| Provisions for depreciation: | | |
| Leasehold buildings | 18 000 | |
| Motor vehicles | 10 000 | |
| Fixtures and fittings | 15 000 | |
| Trade payables | 55 900 | |
| Trade receivables | 39 500 | |
| Provision for doubtful debts | 1 900 | |
| 8% Bank loan (repayable 31 March 2015) | 40 000 | |
| Bank interest paid | 1 600 | |
| Bank | 31 400 | Dr |
| Capital accounts: | | |
| Darius | 40 000 | |
| Edgar | 40 000 | |
| Current accounts at 1 August 2013: | | |
| Darius | 500 | Cr |
| Edgar | 900 | Cr |
| Drawings: | | |
| Darius | 12 000 | |
| Edgar | 12 000 | |
| Purchases | 148 300 | |
| Revenue | 256 000 | |
| Returns inwards | 5 200 | |
| Inventory at 1 August 2013 | 25 800 | |
| Heat and light | 7 600 | |
| Other operating expenses | 6 350 | |
| Wages and salaries | 28 950 | |
| Motor vehicle expenses | 11 000 | |
| Rent receivable | 3 500 | |
| Rent payable | 12 000 | |

Additional information at 31 July 2014

- 1 Inventory was valued at \$34 100.
- 2 Other operating expenses prepaid \$1800.
- 3 Rent receivable of \$1500 was outstanding.
- 4 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - (i) an appropriate amount is to be charged on the leasehold buildings which are held on a 25 year lease
 - (ii) motor vehicles at the rate of 30% per annum using the diminishing (reducing) balance method
 - (iii) fixtures and fittings at the rate of 10% per annum using the straight-line method.

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