

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

Specimen paper for examination from 2008

2 hours

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.
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** the questions.
Question 6 should be answered in the booklet or on multi-column accounting paper. If you use multi-column accounting paper attach your answer to the question to this booklet.
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	
6	
Total	

This document consists of **20** printed pages.

- 1 Jack Trail recently started using computerised accounts software. He printed out the following account:

Marianne Hindle account

2006		Dr \$	Cr \$	Balance \$
14 June	Purchases		950	950
4 July	Bank	931		19
4 July	Discount	19		0
12 July	Purchases		460	460

REQUIRED

- (a) Identify **two** documents that Jack Trail would have used as a source of information in preparing the above account. Tick the appropriate boxes.

Document	✓
Cheque	
Credit note	
Debit note	
Invoice	

[2]

- (b) State the type of discount recorded in the ledger account on 4 July.

..... [1]

- (c) List the **two** books of original entry that would be used by Jack Trail if the transactions with Marianne Hindle had been recorded in a manual book-keeping system.

1

2 [2]

(d) Identify the heading under which Marianne Hindle's account would be recorded in Jack Trail's balance sheet at 12 July. Tick the appropriate box.

Heading	√
Fixed assets	
Current assets	
Current liabilities	
Long-term liabilities	

[1]

(e) State **two** benefits Jack Trail gains from using Information and Communications Technology (ICT) in book-keeping.

1

.....

2

..... [2]

[Total: 8]

- (b) Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2006.

Sally Major
Bank Reconciliation Statement at 31 July 2006

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..... [4]

[Total: 9]

3 Jenny Palmer started business on 1 July 2006. She did not keep full records in the first month in business although she did make a note of transactions so that her book-keeper could prepare proper records from the start of August 2006.

Jenny's notes showed the following:

- 1 She had sold goods for \$790 cash during the month. She had also received \$4460 from debtors by cheque. Customers owed \$1420 at 31 July which she expected to receive during August. Jenny had been advised *another* customer had gone bankrupt and she decided to write off \$140.
- 2 Jenny bought all goods on credit from suppliers for \$3600. She had paid \$1900 by cheque and received a discount for \$100.
- 3 Jenny's stock was valued at \$240 on 31 July.

REQUIRED

(a) Calculate the total sales for the month ended 31 July 2006.

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..... [5]

(b) Calculate the amount Jenny Palmer owes creditors at 31 July 2006.

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.....

..... [3]

Jenny paid sundry expenses of \$1650 during July.

REQUIRED

- (e) Prepare Jenny Palmer's profit and loss account for the month ended 31 July 2006 using the information given and your answers above.

Jenny Palmer
Profit and Loss Account for the month ended 31 July 2006

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..... [5]

Jenny's notes also showed the following:

- 1 Jenny started business on 1 July with \$2000 in cash as capital.
- 2 She purchased equipment costing \$1200 on 1 July.
- 3 She took \$550 cash from the business for personal use during July.
- 4 She had \$71 in cash and \$1370 in the bank on 31 July.

- 4 The following information was extracted from the books of Jack Lightbourne for the year ended 31 July 2006.

	\$
Sales	174 600
Opening stock	6 350
Purchases	89 150
Closing stock	8 200
Sundry expenses	69 840
Drawings	6 984
Current assets	24 600
Current liabilities	16 400

REQUIRED

- (a) Calculate, to one decimal place, the following ratios. Show your workings in the box provided.

		Workings	
(i)	Gross profit/sales		%
(ii)	Net profit/sales		%
(iii)	Rate of stock turnover		

Jack Lightbourne is concerned that his business is not performing as well as those of his competitors. He is considering changing some of the figures in the final accounts so the results look better. He suggested the following:

- 1 Stock should be valued at sales price because that is how much it will bring into the business.
- 2 An existing provision for doubtful debts based on past experience should be eliminated. Bad debts should only be written off when clearly a customer will not pay.

REQUIRED

(c) (i) State the bases on which stock and trade debtors should be valued.

Stock

.....

Trade debtors

..... [2]

(ii) Identify and explain the accounting concept which should be applied when valuing stock and debtors.

Concept

Explanation

..... [3]

(d) Explain **two** reasons why an accountant would consider it is professionally unethical to improve the financial results of Jack Lightbourne by making the adjustments suggested.

1

.....

.....

.....

2

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.....

..... [4]

[Total: 22]

5 The capital and reserves of Salvadore Ltd are as follows:

Salvadore Ltd
Balance Sheet (extract) at 31 July 2006

Capital and Reserves	Authorised	Called-up
	\$	\$
Preference shares of \$1 each	100 000	40 000
Ordinary shares of \$0.50 each	<u>100 000</u>	<u>50 000</u>
	<u>200 000</u>	90 000
General reserve		80 000
Profit and loss account		43 900

REQUIRED

(a) Explain the difference between authorised and called-up share capital.

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..... [2]

(b) Explain **two** differences between preference shares and ordinary shares.

1

.....

2

..... [2]

(c) Explain why a company uses a general reserve.

.....

.....

..... [1]

Answer Question 6 in this booklet or on separate multi-column accounting paper.

For
Examiner's
Use

- 6 Alison Brown is a manufacturer. The following balances were extracted from the books on 31 July 2006.

Alison Brown
Trial Balance at 31 July 2006

	\$
Stock at 1 August 2005	
Raw materials	34 760
Work in progress	4 820
Finished goods	8 300
Purchases of raw materials	396 300
Purchases of finished goods	11 340
Carriage on purchases of raw materials	1 200
Sales	798 200
Sales returns	6 400
Direct factory wages	198 600
Factory manager's salary	18 600
Office salaries	43 330
Sundry factory expenses	24 360
Sundry office expenses	18 950
Distribution costs	23 460
Land and buildings (cost)	40 000
Factory plant and machinery (cost)	96 000
Office equipment (cost)	17 400
Provision for depreciation of factory plant and machinery	42 000
Provision for depreciation of office equipment	6 000
Debtors	84 350
Bank (Dr)	2 050
Creditors	64 160
Capital	92 160
Drawings	12 300

Additional information:

- 1 Stock at 31 July 2006 was valued as follows:

	\$
Raw materials	47 290
Work in progress	4 670
Finished goods	9 200

- 2 At 31 July 2006:

- (i) Direct factory wages, \$16 550, were accrued.
- (ii) Office salaries, \$1860, were prepaid.

- 3 Depreciation is to be charged on factory plant and machinery at 25% per annum using the diminishing (reducing) balance method.

- 4 Office equipment is to be depreciated using the straight-line method at 20% on cost.

Office equipment, \$15 000, was purchased on 1 August 2003. Additional office equipment, \$2400, was purchased on 30 April 2006. No other changes in fixed assets occurred in the year ended 31 July 2006. Depreciation is calculated for the time assets are held in the business.

- 5 A provision for doubtful debts is to be created at 2 % of debtors.
- 6 Alison withdrew finished goods, \$960, from the business during the year. This has not been included in the books.

REQUIRED

- (a) Prepare the manufacturing account of Alison Brown for the year ended 31 July 2007. Show clearly cost of raw materials consumed, prime cost and cost of production. [11]
- (b) Prepare the trading and profit and loss accounts of Alison Brown for the year ended 1 July 2007. [13]
- (c) Prepare the balance sheet of Alison Brown at 1 July 2007. [16]

[Total: 40]

Question	Syllabus Reference	A: Knowledge with understanding	B: Analysis	C: Evaluation	Total Marks
1(a)	1.3, 1.7	2			
1(b)	1.4, 1.7	1			
1(c)	1.4	2			
1(d)	3.2	1			
1(e)	1.1	2			8
2(a)	1.5		5		
2(b)	1.5		4		9
3(a)	2.4, 4.4	5			
3(b)	2.4, 4.4	3			
3(c)	4.4	3			
3(d)	5.1, 5.2		6		
3(e)	4.1		5		
3(f)	4.4		8		30
4(a)	6.1			10	
4(b)	6.1			3	
4(c)(i)	3.2	2			
4(c)(ii)	6.2	3			
4(d)	6.2			4	22
5(a)	4.5	2			
5(b)	4.5	2			
5(c)	4.5	1			
5(d)	4.2, 4.5			4	
5(e)	6.2			2	11
6(a)	4.6		11		
6(b)	4.6		13		
6(c)	4.6		16		40
Total		29	68	23	120

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