



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/02

Paper 2

For Examination from 2010

SPECIMEN PAPER

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 rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

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	
6	
Total	

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



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

For
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Use

Marianne Howard account

2009		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 John 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 John Trail if the transactions with Marianne Howard had been recorded in a manual book-keeping system.

1

2 [2]

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

Heading	✓
Non current (fixed assets)	
Current assets	
Current liabilities	
Non current (long-term) liabilities	

[1]

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

1

.....

2

..... [2]

[Total: 8]

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- (b) Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2009.

*For
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Use*

Sally Major
Bank Reconciliation Statement at 31 July 2009

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.....
.....
.....
.....
..... [4]

[Total: 9]

- 3 Jenny Palmer started business on 1 July 2009. 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 1 August 2009.

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 inventory (stock) was valued at \$240 on 31 July.

REQUIRED

- (a) Calculate the total revenue (sales) for the month ended 31 July 2009.

.....
.....
.....
.....
.....
..... [5]

- (b) Calculate the amount Jenny Palmer owed to creditors at 31 July 2009.

.....
.....
.....
.....
..... [3]

(c) Calculate the gross profit for the month ended 31 July 2009.

For
Examiner's
Use

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[3]

Jenny has one employee.

The employee was paid for 120 hours at \$5 per hour, and six hours overtime at time and a half.

\$136 was deducted from pay for tax and social security.

Jenny must also pay \$45 employer's contribution to social security.

The total tax and social security is due to be paid to the tax authorities on 19 August.

REQUIRED

(d) Prepare the journal entries for wages and social security contributions for July 2009. Narratives are not required. Show your calculations in the space below.

Jenny Palmer
Journal

	Dr. \$	Cr. \$
.....		
.....		
.....		
.....		
.....		
.....		
.....		
.....		
.....		

[6]

Workings:

- 4 The following information was extracted from the books of Jack Lightbourne for the year ended 31 July 2009.

For
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Use

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

REQUIRED

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

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

(iv)	Current (working capital) ratio		
(v)	Acid test ratio		

[10]

Jack Lightbourne's main competitor generates gross profit/sales of 100% and net profit/sales of 15%.

REQUIRED

(b) Suggest how Jack could improve his ratios for gross profit/sales and net profit/sales to a competitive level.

Gross profit/sales

.....

.....

.....

.....

Net profit/sales

.....

.....

.....

.....

[3]

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:

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- 1 Inventory (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 it is established that a customer will not pay.

REQUIRED

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

Inventory (stock)

.....

Trade receivables (debtors)

..... [2]

(ii) Identify and explain the accounting concept which should be applied when valuing inventory (stock) and trade receivables (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

.....

.....

..... [4]

[Total: 22]

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

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Use

Salvadore Ltd
Balance Sheet (extract) at 31 July 2009

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.

.....

.....

.....

..... [2]

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

1

.....

2

..... [2]

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

.....

.....

..... [1]

(d) Explain **two** differences between the capital structure in a balance sheet of a limited company and a partnership.

*For
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Use*

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..... [4]

(e) Large companies apply international accounting standards when preparing their accounts.

Explain **two** benefits of a system of international accounting standards.

1
.....
2
..... [2]

[Total: 11]

Answer Question 6 on the following pages

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- 6 Alison Brown is a manufacturer. The following balances were extracted from the books on 31 July 2009.

Alison Brown Trial Balance at 31 July 2009		\$
Inventory (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	
Revenue (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	
Trade receivables (debtors)	84 350	
Bank (Dr)	2 050	
Trade payables (creditors)	64 160	
Capital	132 160	
Drawings	12 300	

Additional information

- 1 Inventory (stock) at 31 July 2009 was valued as follows:

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

- 2 At 31 July 2009

- (i) Direct factory wages of \$16 550 were accrued
- (ii) Office salaries of \$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 2009
No other changes in fixed assets occurred in the year ended 31 July 2009

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 for personal use, \$960, from the business during the year. This has not been recorded in the books.

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Use*

REQUIRED

- (a) Prepare the manufacturing account of Alison Brown for the year ended 31 July 2009. Show clearly cost of raw materials consumed, prime cost and cost of production. [11]
- (b) Prepare the income statement (profit and loss account) of Alison Brown for the year ended 31 July 2009. [13]
- (c) Prepare the balance sheet of Alison Brown at 31 July 2009. [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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