

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Ordinary Level

CANDIDATE NAME								
CENTRE NUMBER					CANDID NUMBER			

PRINCIPLES OF ACCOUNTS

7110/02

Paper 2

October/November 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 or graphs.

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

DO NOT WRITE IN ANY BARCODES.

Answer all questions.

Question **5** should be answered on pages **18** and **19** of the answer booklet **or** on multi-column accounting paper. If you use multi-column accounting paper, attach your answer to Question **5** 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 Exam	For Examiner's Use			
1				
2				
3				
4				
5				
Total				

This document consists of 14 printed pages, 2 lined pages and 4 blank pages.



2 Jason Moore had the following balances in his books on 31 October 2008: For Examiner's Use \$ Provision for doubtful debts 150 Capital 16 550 **Drawings** 8 000 Plant and equipment 18 000 Provision for depreciation of plant and equipment 3 000 4 000 **Debtors** 3 000 Creditors 2 000 Cash 1 500 Sales 40 000 **Purchases** 21 000 Sundry expenses 6 200 **REQUIRED** (a) Extract the trial balance for Jason Moore at 31 October 2008. Jason Moore Trial balance at 31 October 2008

[3]

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(b)	State two uses of a trial balance.			
	1			
	2			
(c)	State and explain three errors which do not affect a trial bala			[2]
	1			 [2]
	2			
	3			[2]
				[2]
On	investigation Jason identified the following errors in his books.			
1	\$3000 debited to plant and equipment should have been reco	orded as pu	rchases.	
2	A payment to creditors of \$1000 in cash had not been record	ed.		
RE	QUIRED			
(d)	Make journal entries to record the correction of the errors. Na	rratives are	not require	d.
		Dr	Cr	
		\$	\$	
		•••••		
				[4]

Jason Moore's capital account at 31 October 2008 was as follows:

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[Total: 19]

Capital account

		Dr	Cr	Balance
		\$	\$	\$
2007				
Nov 1	Balance b/d			16 550
2008				
Oct 31	Profit and loss		10 880	27 430
31	Drawings	8 000		19 430

e)	(i)	Identify the above format of ledger accounts and state the benefit of this format compared with 'T' accounts.
		[2]
	(ii)	Explain why the final balance in the account above differs from the capital account balance in the trial balance.
		[2]

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Question 2 is on the next page

2

Tina West, a trader, uses books of prime entry. She does not operate a full double entry system. The following information is extracted from her business records for the year ended 31 October 2008:	For Examiner's Use
Debtors' control account balance 1 November 2007 Debtors' control account balance 31 October 2008 Receipts from debtors Receipts from cash sales Bad debt written off Discount allowed \$ 33 200 48 600 135 000 56 000 5 500 7 200	
REQUIRED	
(a) Calculate the total sales for the year ended 31 October 2008. Show all workings.	
[7]	
The West has a superior of the sales with a f 400% and a decomplished for the	
Tina West has a gross profit to sales ratio of 40 % and net profit to sales ratio of 5 %.	
(b) Calculate Tina West's gross profit and net profit.	
Gross profit	
Net profit	
[2]	1

Tina West employs two part-time staff. Each works 50 weeks a year. One is employed for 25 hours each week at \$6 per hour. The other works 30 hours each week at \$8 per hour.

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(c)	(i)	Calculate the total wages Tina West pays the part-time staff during the year.
		[3]
	(ii)	State one additional payroll cost Tina West would incur.
		[1]
		nployees have asked for a 10 % increase in pay. Tina can use the information in her counts when considering this request.
(d)		plain three different ways in which the final accounts can help Tina decide about the rise.
	1	
	2	
	3	
		[6]
		[Total: 19]

			8		
3		e treasurer of Avalon Socia rmation was available at 3		roper accour	nting records. The following
	1	Subscriptions paid in additional The balance of subscriptions			er 2007 amounted to \$210.
	2	Receipts during the year	ended 31 October 200	08:	
		- for th - for th Sale of refreshments		ber 2008 ber 2009	\$ 130 (in arrears) 1490 90 (in advance) 4970
	3	Payments during the year	r ended 31 October 20	108:	
		Purchase of refreshment and rates Insurance Sundry expenses	\$ nents 3630 1400 300 1300		
	Add	ditional information:			
			1 November 2007 \$	31 Octobe	er 2008
		Stock of refreshments Balance at bank	340 740 Dr	290)) Dr
	Allı	receipts and payments we	re made through the b	ank account.	
	RE	QUIRED			
	(a)	Calculate the accumulate	d fund at 1 November	2007.	

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[2]

(b) Prepare the subscriptions account for the year ended 31 October 2008.

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Use

	Avalon Social Club
	Subscriptions account
	[5]
(c)	Calculate the gross profit made on the sale of refreshments.
	[2]

(d) Prepare the income and expenditure account for the year ended 31 October 2008.

Avalon Social Club
Income and Expenditure Account for the year ended 31 October 2008

[4]

[4]

(e) Explain how the matching/accruals concept should be used in calculating subscriptions for the year.

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[Total: 17]

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Question 4 is on the next page

4 Agrippa Ltd had the following balances in its accounts **after** the calculation of net profit for the year ended 31 October 2008:

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	\$
Land and buildings at cost	100 000
Plant and equipment at cost	80 000
Provision for depreciation of plant and equipment	40 000
Stock	14 400
Debtors	10 000
Cash at bank (Dr)	5 000
Creditors	15 000
Called up share capital:	
5 % \$1 Preference shares	30 000
\$1 Ordinary shares	40 000
8% Debenture loan	20 000
General reserves	8 000
Profit and loss account for the year ended 1 November 2007	50 000
Net profit for the year ended 31 October 2008	7 000

Additional information:

- 1 The directors have decided to transfer \$20 000 to the general reserves.
- The directors agreed to pay the preference share dividend for the year. They also declared a final dividend of 2½% on ordinary shares. An interim dividend of 1½% on ordinary shares had been paid in April 2008.

REQUIRED

(a) Prepare the appropriation account for Agrippa Ltd for the year ended 31 October 2008.

Agrippa Ltd

Appropriation Account for the year ended 31 October 2008
[7]

(b) Prepare the balance sheet extract for the capital and reserves of Agrippa Ltd as at 31 October 2008.

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	Agrippa Ltd Balance Sheet (extract) at 31 October 2008
	[4]
(c)	Explain the difference between authorised and called-up share capital.
	[2]
(d)	Explain one difference between ordinary and preference shares.
	[2]
(e)	Explain one difference between preference shares and debentures.
	[2]

A director has asked the company's accountant to value the closing stock in the final accounts at market value of \$20 000 instead of cost price, \$14 400.

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(f)	Explain why the accountant cannot ethically do this.
	[4]
	companies prepare their published accounts in accordance with International ting Standards (IASs).
REQUII	RED
(g) Exp	plain two reasons why International Accounting Standards are used.
	1
	2
	[4]
	[Total: 25]

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Question 5 is on the next page

Answer Question 5 in this booklet or on separate sheets of paper.

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5 Samma Rashid is a manufacturer. The following balances were extracted from the books on 31 October 2008:

	\$
Stock at 1 November 2007	
Raw materials	26 700
Work in progress	7 900
Finished goods	2 450
Purchases of raw materials	213 200
Purchases of finished goods	15 800
Purchases returns of finished goods	900
Sales	525 300
Discounts received	5 100
Direct factory wages	145 300
Factory manager's salary	14 800
Indirect factory expenses	23 200
Office salaries	36 200
Office expenses	18 600
Distribution costs	23 400
Factory plant and machinery at cost	80 000
Office equipment at cost	24 000
Provision for depreciation of factory plant and machinery	36 000
Provision for depreciation of office equipment	15 360
Debtors	44 250
Provision for doubtful debts	800
Creditors	19 600
Drawings	11 600
Bank	3 600 Cr
Capital	80 740

Additional information:

1 Stock at 31 October 2008 was valued as follows:

Raw materials 30 640
Work in progress 8 200
Finished goods 2 150

2 At 31 October 2008:

Direct factory wages, \$12 100, were accrued. Distribution costs, \$1860, were prepaid.

- 3 Depreciation is to be charged on factory plant and machinery at 25 % per annum using the straight line method. The residual value of plant and machinery is estimated at \$8000.
- 4 Depreciation is to be charged on office equipment at 40 % per annum using the diminishing (reducing) balance method.

No purchases or sales of fixed assets took place within the year.

REQUIRED

5 A cheque for \$4800 was received from a debtor on 31 October 2008 but has been omitted, in error, from the above balances. This is to be entered in the books.

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6 The provision for doubtful debts is to be maintained at 2% of debtors.

(a) Prepare the manufacturing account for the year ended 31 October 2008. Show clearly cost of raw materials consumed, prime cost and cost of productions.	ction. [11]
(b) Prepare the trading and profit and loss accounts for the year ended 31 October 2008.	[14]
(c) Prepare the balance sheet at 31 October 2008.	[15]
	[Total: 40]

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1

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