



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

**October/November 2010**

**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.

For Examiner's Use	
1	
2	
3	
4	
5	
<b>Total</b>	

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



1 The following balances were taken from the books of Dilshan on 1 September 2010:

	\$	
Insurance	280	Dr
Gul & Co	450	Dr

The following transactions took place during September 2010:

September 1 Dilshan paid, by cheque, the annual insurance premium, \$360, for the year to 31 August 2011.

September 15 Dilshan sold, on credit to Gul and Co, goods with a list price of \$1600 and allowed 15% trade discount.

September 20 Gul & Co paid the balance at 1 September 2010 less 2% cash discount.

Dilshan prepared his financial statements (final accounts) on 30 September 2010.

**REQUIRED**

(a) (i) Name an alternative format to 'T' accounts.

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

(ii) State **one** benefit of this format compared with 'T' accounts.

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

(b) Prepare the following ledger accounts for the month of September 2010. Make any necessary transfers to the income statement (profit and loss account). Balance the accounts and bring down the balance.

*For  
Examiner's  
Use*

Insurance account

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Gul & Co account

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..... [10]

(c) State in which of Dilshan’s ledgers the following accounts would appear.

For  
Examiner's  
Use

Account	Ledger
Insurance	
Gul & Co	

[2]

(d) (i) Name the document which was sent to Gul & Co recording the transaction of 15 September 2010.

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

(ii) Name the book of prime (original) entry in which Dilshan recorded this transaction.

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

(e) (i) Explain why Dilshan did not include all of the insurance paid on 1 September 2010 in his income statement (profit and loss account) for the year ended 30 September 2010.

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..... [2]

(ii) State the accounting principle that Dilshan applied.

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

**[Total: 20]**

- 2 Jayani prepared a trial balance at 30 September 2010, which balanced.

A draft income statement (trading and profit and loss account) was then prepared and a gross profit of \$60 000 and a profit for the year (net profit) of \$15 000 was calculated.

Jayani then discovered the following errors:

- 1 A sale of office equipment at net book value, \$3 000, had been recorded in the sales account.
- 2 Purchases of goods, \$650, on credit from Alana had been credited to the purchases account and debited to Alana's account.
- 3 An invoice from JGL Insurance, \$425, for buildings insurance, had not been recorded in the books.

### REQUIRED

- (a) Prepare journal entries to correct the errors in 1 to 3 above.  
Narratives are **not** required.

#### Journal

	Dr	Cr

[6]

- (b) Name the type of error made in 1 to 3 above.

- 1 .....
- 2 .....
- 3 ..... [3]

- (c) Calculate the revised gross profit and profit for the year (net profit) for Jayani, following the correction of the errors 1 to 3 above.

Where the error would have no effect on the gross profit or profit for the year (net profit), state 'no effect'.

	Gross profit	Profit for the year (Net profit)
	\$	\$
Draft profit	60 000	15 000
Error 1		
Error 2		
Error 3		
Revised profit		

[8]

- (d) Jayani is considering the purchase of a new computerised book-keeping system. State **two** benefits that Jayani will gain from using Information and Communications Technology (ICT) in book-keeping.

(i) .....

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.....

(ii) .....

.....

..... [2]

[Total: 19]

- 3 Harland Ltd had the following balances in its accounts **after** the calculation of the profit for the year (net profit) ended 31 October 2010:

For  
Examiner's  
Use

	\$
Called up share capital:	
4% \$1 Cumulative preference shares	200 000
\$1 Ordinary shares	400 000
Non-current (fixed) assets	700 000
6% Debentures	100 000
Inventory (stock)	55 000
Trade payables (creditors)	50 000
Trade receivables (debtors)	105 000
Profit (net profit) for the year ended 31 October 2010	65 000
Profit and loss account (retained profit) 1 November 2009	75 000
General reserve	110 000
Bank	40 000 Dr
Interim preference dividend paid	5 000

Additional information

1	Authorised share capital:	\$
	4% \$1 Cumulative preference shares	250 000
	\$1 Ordinary shares	500 000

- 2 The directors have decided to:

Transfer \$25 000 to the general reserve.

Pay the remainder of the cumulative preference share dividend for the year. An interim dividend of 2½% was paid on 30 April 2010.

Pay a \$0.05 final dividend on the ordinary shares. No interim dividend had been paid.

**REQUIRED**

(a) Prepare the appropriation account for Harland Ltd for the year ended 31 October 2010.

*For  
Examiner's  
Use*

Harland Ltd  
Appropriation Account for the year ended 31 October 2010

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..... [6]





(d) Explain the difference between preference shares and cumulative preference shares.

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..... [2]

(e) State **one** difference between ordinary shares and debentures.

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

(f) Explain **two** benefits of international accounting standards.

(i) .....

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(ii) .....

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..... [2]

(g) Explain the term capital expenditure.

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

- (h) In the table below, place a tick (✓) under the correct heading to indicate which of the following is capital expenditure or revenue expenditure.

For  
Examiner's  
Use

	Capital expenditure	Revenue expenditure
Advertising campaign		
A new computer system		
Purchase of computer CDs		

[3]

**[Total: 23]**

4 Windy Ltd is in business buying and selling goods on credit. The following balances were taken from the books of Windy Ltd.

	Year ended 30 September 2009	Year ended 30 September 2010
	\$	\$
Non-current (fixed) assets	80 000	200 000
Inventory (stock)	55 000	60 000
Trade receivables (debtors)	50 000	90 000
Trade payables (creditors)	30 000	75 000
Amount due in more than one year (long-term loan)	-	50 000
Bank	15 000	-
Bank overdraft	-	45 000

**REQUIRED**

(a) Calculate the following. Give your answers to **two** decimal places.

Show your workings.

(i) Current ratio at 30 September 2009

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Current ratio at 30 September 2010

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[4]

(ii) Quick (acid test) ratio at 30 September 2009

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Quick (acid test) ratio at 30 September 2010

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..... [4]

(b) Suggest **one** reason for the change in liquidity between 30 September 2009 and 30 September 2010.

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..... [2]

For  
Examiner's  
Use

(c) Suggest **four** actions which Windy Ltd might take to improve its bank balance.

For  
Examiner's  
Use

(i) .....  
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(ii) .....  
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(iii) .....  
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(iv) .....  
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..... [8]

**[Total: 18]**

- 5 The following balances were extracted from the books of Doji, a trader, on 30 September 2010:

For  
Examiner's  
Use

	\$
Ordinary goods purchased (purchases)	70 000
Carriage inwards	3 000
Revenue (sales)	155 000
Sales returns	9 500
Non current (fixed) assets:	
Motor vehicles	42 000
Office equipment	26 000
Provisions for:	
depreciation on motor vehicles	8 000
depreciation on office equipment	4 000
Provision for doubtful debts	1 000
Salaries	23 750
Rent and rates	6 800
Discount received	5 600
Sundry expenses	14 150
Advertising	6 200
Trade payables (creditors)	18 300
Trade receivables (debtors)	23 000
Inventory (stock) at 1 October 2009	11 500
Bank overdraft	16 000
Capital	40 000
Drawings	12 000

Additional information at 30 September 2010

- 1 Inventory (stock) was valued at \$14 600.
- 2 During the year Doji took goods costing \$1250 for his own use. No entries have been made in the books.
- 3 Advertising, \$300, was prepaid. Salaries, \$2600, were accrued.
- 4 Depreciation is to be charged as follows:  
     motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method;  
     office equipment at the rate of 10% per annum using the straight line method.
- 5 Trade receivables (debtors) include a debt of \$4250 which is considered irrecoverable and is to be written off. The provision for doubtful debts is to be maintained at 4% of all remaining debts.
- 6 On 1 April 2010 Doji made a short-term loan, \$10 000, to the business. This was included in error in the capital account. Interest payable at 5% per annum has not been entered in the books.

### REQUIRED

- (a) Prepare the income statement (trading and profit and loss accounts) of Doji for the year ended 30 September 2010. [22]
- (b) Prepare the balance sheet of Doji at 30 September 2010. [18]

**[Total: 40]**

Dotted lines for writing.

For  
Examiner's  
Use









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