



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE
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PRINCIPLES OF ACCOUNTS

7110/22

Paper 2

May/June 2011

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 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	
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5	
Total	

This document consists of **13** printed pages, **6** lined pages and **1** blank page.



REQUIRED

*For
Examiner's
Use*

- (b) Starting with the closing balance from (a) update the bank columns in the cash book. Bring down the amended balance.

Mohan
Cash Book (Bank columns only)

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[2]

- (c) Prepare the bank reconciliation statement at 1 May 2011.

Mohan
Bank Reconciliation Statement at 1 May 2011

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[7]

- (d) Place a tick (✓) in the appropriate box to show whether **each** of the following is an account, a book of prime entry or both an account and a book of prime entry. The first item has been completed as an example.

	ledger account	book of prime entry	a ledger account and a book of prime entry
Inventory	✓		
Purchases journal			
Cash book			
Provision for depreciation			

[3]

[Total: 20]

[Turn over

- 2 Amayi owns a manufacturing business. Her financial year ends on 30 April.

She has the following depreciation policy:

Machinery is depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

Office furniture is depreciated at the rate of 10% per annum using the straight-line method.

Loose tools are depreciated using the revaluation method.

A full year's depreciation is charged on assets in the year of purchase but no depreciation is charged in the year of sale.

REQUIRED

- (a) Give **two** reasons why depreciation should be charged.

1

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2

..... [4]

- (b) Suggest **one** reason why the diminishing (reducing) balance method might be the most appropriate method for Amayi to depreciate her machinery.

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..... [2]

The following information is available for the year ended 30 April 2011.

- 1 Balances 1 May 2010

	\$
Non-current assets at cost	
Machinery	80 000
Office furniture	15 000
Provisions for depreciation	
Machinery	60 000
Office furniture	5 000

- 2 On 31 July 2010, additional machinery, \$18 000, was purchased.
- 3 On 20 February 2011, office furniture, which had cost \$1 000 on 1 May 2008, was sold for \$550 cash.
- 4 On 1 May 2010, loose tools, cost price \$1600, were valued at \$1050. Additional loose tools were purchased during the year for \$630. On 30 April 2011 loose tools were valued at \$1400.

REQUIRED

*For
Examiner's
Use*

(c) Calculate the depreciation to be charged on **each** of the following for the year ended 30 April 2011.

(i) Machinery

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(ii) Office furniture

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(iii) Loose tools

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[6]

(d) Calculate the profit or loss on the office furniture sold on 20 February 2011.

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..... [3]

(e) Calculate the net book value on 30 April 2011 of

(i) Machinery

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(ii) Office furniture

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..... [2]

(f) Identify by ticking the appropriate box, (✓) whether **each** payment is capital expenditure or revenue expenditure.

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		
Installation of additional machinery		
Repairs to office furniture		
Purchase of loose tools		

[4]

[Total: 21]

3 Tanvir does not keep a full set of double entry accounts.

The following information is available for the year ended 30 April 2011.

Summarised Bank account

	\$		\$
Receipts from customers	60 500	Balance b/d	100
Sale of non-current asset	750	Payments to suppliers	34 900
		Wages	15 000
		Lighting and heating	2 500
		Drawings	5 000
		Purchase of non-current asset	8 000
Balance c/d	10 250	General expenses	6 000
	<u>71 500</u>		<u>71 500</u>

Additional information:

	1 May 2010		30 April 2011
	\$		\$
Inventory	5 250		11 000
Trade receivables	9 750		8 400
Trade payables	10 500		9 300
Non-current assets (book value)	40 000		42 000
Lighting and heating	600	Prepaid	250
6% Bank loan repayable 30 April 2016	20 000	Accrued	20 000
Capital	25 000		?

The non-current asset sold during the year had a book value of \$1 000.

REQUIRED

(a) Calculate for the year ended 30 April 2011:

(i) Sales

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..... [3]

(ii) Purchases

For
Examiner's
Use

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(b) Prepare the income statement for the year ended 30 April 2011.

Tanvir
Income Statement for the year ended 30 April 2011

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4 Mary is in business buying and selling goods on credit. The following information was available at 30 April 2011.

For
Examiner's
Use

	\$
Inventory 1 May 2010	5 500
Inventory 30 April 2011	7 500
Capital 30 April 2011	75 000
Operating expenses for the year	23 500
Purchases for the year	72 000
Mark up	50%

REQUIRED

(a) Calculate for the year ended 30 April 2011:

(i) Revenue (sales)

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(ii) Rate of inventory turnover (correct to **one** decimal place)

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(iii) Profit for the year (net profit)

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(iv) Percentage net profit /revenue (correct to **one** decimal place)

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 [3]

(v) Percentage net profit / capital (correct to **one** decimal place).

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 [3]

(b) Explain why businesses with a high rate of inventory turnover often have a low percentage net profit to revenue.

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 [2]

(c) Mary is considering ways in which she might increase her rate of inventory turnover.

For each of the options below, place a (✓) to indicate whether the option would increase **or** decrease the rate of inventory turnover.

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.		
(ii) Increase the inventory by \$20 000.		
(iii) Raise selling prices by 10%.		

[3]

[Total: 19]

[Turn over

Answer Question 5 on the following pages.

*For
Examiner's
Use*

- 5 Fu, Li and Yang are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 2:2:1.

Interest on capital is allowed at the rate of 4% per annum and interest is charged on drawings at the rate of 5% per annum on the balances at 30 April 2011.

The following balances were extracted from the books on 30 April 2011.

	\$
Capital accounts	
Fu	40 000
Li	35 000
Yang	25 000
Current accounts	
Fu	2 500 Cr
Li	1 500 Cr
Yang	1 000 Dr
Drawings	
Fu	10 000
Li	10 000
Yang	12 000
Premises	44 750
Motor vehicles (cost)	16 000
Fixtures and fittings (cost)	30 000
Provisions for depreciation	
Motor vehicles	3 200
Fixtures and fittings	17 500
Trade payables	54 700
Trade receivables	45 000
Provision for doubtful debts	1 500
Bank	7 560 Dr
Purchases	111 200
Revenue (sales)	209 500
Returns outward	4 750
Inventory at 1 May 2010	30 650
Salaries and wages	42 100
Heat and light	3 890
General expenses	16 750
Discount received	5 300
Marketing expenses	12 050
Rent	7 500

Additional information at 30 April 2011:

- 1 Inventory was valued at \$28 100.
- 2 General expenses, \$4 200, were prepaid.
- 3 Rent, \$2 500, was accrued.
- 4 Depreciation is to be charged as follows:
 - Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method
 - Fixtures and fittings at the rate of 10% per annum on cost, using the straight line method.
- 5 The provision for doubtful debts is to be maintained at 5% of trade receivables.
- 6 On 30 April 2011 the partners agreed to allow Yang to reduce his capital balance by \$10 000. The sum was transferred to his current account on that date. The transfer took place after calculating the interest on capital for the year.

For
Examiner's
Use

REQUIRED

- (a) Prepare the income statement and appropriation account of Fu, Li and Yang for the year ended 30 April 2011. [24]
- (b) Prepare the statement of financial position (balance sheet) of Fu, Li and Yang at 30 April 2011.

The current accounts details may be included within the statement of financial position (balance sheet) or in ledger account format. [16]

[Total: 40]

Answer Question 5 on the following pages.

For
Examiner's
Use

A series of horizontal dotted lines for writing the answer.

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