

CANDIDATE
NAME

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CENTRE
NUMBER

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CANDIDATE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

May/June 2017

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 an HB pencil for any diagrams or graphs.

Do not use staples, paper clips, 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.

This document consists of **19** printed pages and **1** blank page.

1 Nor purchases goods from Adam. On 1 April Nor owed Adam \$1500. The following transactions occurred in April 2017.

April 9 Adam sold goods to Nor on credit, list price \$1200, less 20% trade discount.

11 Nor returned goods purchased on 9 April, list price \$100.

28 Nor paid by cheque the balance on her account at 1 April and was allowed 3% cash discount.

REQUIRED

(a) Prepare the account of Adam in the ledger of Nor for April 2017. Balance the account and bring down the balance on 1 May 2017.

Adam account

Date	Details	\$	Date	Details	\$

[5]

(b) Name the:

(i) book of prime (original) entry in which the transaction on 9 April would be recorded by Nor.

.....[1]

(ii) document that Adam would send to Nor on 11 April.

.....[1]

(iii) division of Nor’s ledger in which the account of Adam would be kept.

.....[1]

(c) State **one** reason why Adam would allow Nor:

(i) trade discount

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

(ii) cash discount

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

Question 1(d) is on the next page.

On 30 April 2017 Nor received the following bank statement.

Date	Details	Debit	Credit	Balance
2017		\$	\$	\$
April 1	Balance			490 Cr
April 5	Rent receivable		200	690 Cr
April 13	XYZ Supplies Ltd	450		240 Cr
April 20	The Repair Company	175		65 Cr
April 20	Cash sales banked		640	705 Cr
April 25	Commission		250	955 Cr
April 25	United utilities – DD	150		805 Cr
April 27	Cash withdrawal	90		715 Cr
April 29	Dividend		15	730 Cr

Nor compared the bank statement with her cash book.

REQUIRED

- (d) Bring the cash book (bank columns) of Nor up to date. Balance the cash book and bring down the balance on 1 May 2017.

Cash Book (bank columns)

Date	Details	\$	Date	Details	\$
2017			2017		
April 1	Balance b/d	490	April 11	XYZ Supplies Ltd	450
April 5	Rent receivable	200	April 14	West Electricity	325
April 18	Cash sales	640	April 17	The Repair Company	175
April 30	Cash sales	510	April 27	Cash	90
			April 28	Adam	1455

[4]

(e) Prepare the bank reconciliation statement at 30 April 2017.

Bank Reconciliation Statement at 30 April 2017

Balance on bank statement	\$ 730 Credit
Plus.....	
.....	
.....	
Less.....	
.....	
.....	
Balance on bank account	[4]

(f) Explain the abbreviation DD as used in the United utilities payment on 25 April.

.....

.....

.....

..... [2]

[Total: 20]

- 2 Hong prepared draft financial statements on 31 March 2017 which showed a profit for the year of \$9200.

After the preparation of the financial statements, Hong discovered the following errors:

- 1 No entries had been made in the books in respect of \$500 which Hong had withdrawn from the bank for his personal use.
- 2 Goods sold on credit to Tung, \$960, had been recorded in the sales journal as \$690.
- 3 Discount received, \$150, had been debited to the discount allowed account.
- 4 A payment of wages, \$210, had been posted to the general expenses account.
- 5 A sale of fixtures and fittings at book value of \$800, received by cheque, had been recorded in the sales account.

- (b) Complete the table showing the effect on the draft profit of **correcting each** error. Where an error has no effect on profit write 'no effect'. Calculate the revised profit for the year.

Revision of profit for the year ended 31 March 2017				
		Increase	Decrease	
		\$	\$	\$
	Draft profit for the year			9200
1	No entries had been made in the books in respect of \$500 which Hong had withdrawn from the bank for his personal use.			
2	Goods sold on credit to Tung, \$960, had been recorded in the sales journal as \$690.			
3	Discount received, \$150, had been debited to the discount allowed account.			
4	A payment of wages, \$210, had been posted to the general expenses account.			
5	A sale of fixtures and fittings at book value of \$800, received by cheque, had been recorded in the sales account.			
	Revised profit for the year			

[6]

- (c) Explain how the following errors could occur.

- (i) Compensating error

.....

 [2]

- (ii) Error of principle

.....

 [2]

[Total: 20]

Question 3 is on the next page.

3 B Limited had the following balances in the books at 30 April 2017.

	\$
Retained profits 1 May 2016	410 000
General reserve 1 May 2016	75 000
Debentures (repayable 30 June 2020)	80 000
Issued share capital ordinary shares \$1 each	200 000
Interim dividend paid on ordinary shares	10 000
Profit for the year ended 30 April 2017	90 000

Additional information

- 1 On 1 May 2016 an additional 50 000 ordinary shares of \$1 each had been issued.
- 2 On 30 April 2017 the directors:
 - transferred \$50 000 to the general reserve
 - paid a final ordinary dividend of \$0.10 per share.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 30 April 2017.

B Limited
Statement of Changes in Equity for the year ended 30 April 2017

	Ordinary share capital	General reserve	Retained profits	Total
	\$	\$	\$	\$
Balance at 1 May 2016	150 000	75 000	410 000	635 000
Share issue				
Profit for the year				
Transfer to general reserve				
Dividend paid (interim)				
Dividend paid (final)				
Balance at 30 April 2017				

[8]

- (b) Prepare an extract from the statement of financial position to show the equity, reserves and non-current liabilities of B Limited at 30 April 2017.

B Limited
Statement of Financial Position (extract) at 30 April 2017

	\$	\$
.....
.....
.....
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.....
.....
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.....
.....
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.....
.....

[6]

- (c) Explain **two** differences between ordinary share capital and preference share capital.

1.....
.....
.....

2.....
.....
.....
.....[4]

- (d) State **two** possible reasons why the directors of B Limited have transferred \$50,000 to the general reserve.

1.....
.....

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

[Total: 20]
[Turn over]

4 Jia provided the following information.

	\$
At 1 April 2016	
Opening inventory	27 000
For the year ended 31 March 2017	
Expenses	35 000
Revenue	240 000
At 31 March 2017	
Trade payables	20 000
Trade receivables	16 000
Bank	2 000 Debit
Closing inventory	21 000

Jia uses a mark-up of 25%.

REQUIRED

(a) Calculate the following for the year ended 31 March 2017.

(i) Cost of sales

.....

.....

.....

..... [2]

(ii) Profit for the year

.....

.....

.....

..... [2]

(b) Calculate the following ratios to **two** decimal places. The previous year's ratios are shown in the last column.

	Workings	31 March 2017	31 March 2016
Gross profit/sales (Gross profit margin)			15.00%
Rate of inventory turnover			5.33 times
Working capital ratio (Current ratio)			3.15:1
Quick ratio (acid test ratio)			0.32:1

[8]

(c) Comment on the change in the following ratios calculated in (b) over the two years.

(i) Gross profit/sales (Gross profit margin)

.....

.....

.....

.....

.....

(ii) Quick ratio (acid test ratio)

.....

.....

.....

.....

.....

[4]

Jia is considering ways in which she might improve her profit and working capital in the following year. She is considering the following proposals:

- Proposal 1 Introduce additional capital of \$20 000 in cash.
- Proposal 2 Charge depreciation on non-current assets at 15% per annum instead of 25% per annum.
- Proposal 3 Take out a 5-year 6% bank loan of \$30 000.

REQUIRED

- (d) Complete the following table by placing a tick (✓) to show the effect of **each** proposal on Jia's profit for the year and working capital. The first item has been completed as an example.

	Profit for the year			Working capital		
	increase	decrease	no effect	increase	decrease	no effect
Proposal 1			✓	✓		
Proposal 2						
Proposal 3						

[4]

[Total: 20]

Question 5 is on the next page.

5 Bik is a sole trader. The following balances were extracted from her books on 28 February 2017.

	\$
Revenue	410 000
Purchases	216 800
Returns inwards	15 600
Returns outwards	9 550
Administration expenses	71 000
Insurance	6 800
Rent receivable	15 000
Electricity	10 200
Staff salaries	59 700
Advertising	27 500
General expenses	14 600
Non-current assets	
Leasehold buildings (cost)	90 000
Shop fixtures (cost)	24 000
Computer equipment (cost)	60 000
Provision for depreciation	
Leasehold buildings	13 500
Shop fixtures	14 000
Computer equipment	42 000
Disposal account	6 000 Debit
8% Bank loan (repayable 31 December 2017)	60 000
Inventory at 1 March 2016	24 050
Bank	20 500 Debit
Trade receivables	34 500
Trade payables	25 600
Provision for doubtful debts	1 100
Capital	100 000
Drawings	9 500

Additional information at 28 February 2017

- 1 Inventory was valued at \$20 700.
- 2 Staff salaries include \$8 000 paid to Bik.
- 3 Rent receivable, \$3 000, was owing.
- 4 General expenses, \$5 000, were owing.
- 5 No interest had been paid on the bank loan.
- 6 During the year new shop fixtures costing \$8 000 were purchased. Payment was made by cheque. No entries had been made in the books.
- 7 Depreciation is to be charged on all non-current assets owned at the end of each year.
 - (i) The buildings are held on a lease of 20 years. An appropriate amount is charged for depreciation of the leasehold.
 - (ii) Shop fixtures at the rate of 15% per annum using the straight line method.
 - (iii) Computer equipment at the rate of 30% per annum using the diminishing (reducing) balance method.
- 8 Trade receivables, \$2 500, were considered irrecoverable and should be written off. The provision for doubtful debts of 5% is to be maintained.

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