| Centre Number | Candidate Number | Name |
|---------------|------------------|------|
|               |                  |      |

# UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Ordinary Level

#### **PRINCIPLES OF ACCOUNTS**

7110/02

Paper 2

Specimen paper for examination from 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, graphs, or rough working.

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

Answer ALL the questions.

Question 6 should be answered in the booklet or on multi-column accounting paper. If you use multi-column accounting paper attach your answer to the question 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 Examiner's Use |  |  |
|--------------------|--|--|
| 1                  |  |  |
| 2                  |  |  |
| 3                  |  |  |
| 4                  |  |  |
| 5                  |  |  |
| 6                  |  |  |
| Total              |  |  |

This document consists of 20 printed pages.



[Turn over

© UCLES 2006

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

#### Marianne Hindle account

| 2006    |           | 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 Jack Trail would have used as a source of information in preparing the above account. Tick the appropriate boxes.

| Document    | V |
|-------------|---|
| 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 <b>two</b> books of original entry that would be used by Jack Trail if the transactions with Marianne Hindle had been recorded in a manual book-keeping system. |            |
|     | 1                                                                                                                                                                        |            |
|     | 2                                                                                                                                                                        | <u>'</u> ] |

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

| Heading               | $\sqrt{}$ |
|-----------------------|-----------|
|                       |           |
| Fixed assets          |           |
|                       |           |
| Current assets        |           |
|                       |           |
| Current liabilities   |           |
|                       |           |
| Long-term liabilities |           |

[1]

| (e) | State <b>two</b> | benefits   | Jack  | Trail | gains | from | using | Information | and | Communications |
|-----|------------------|------------|-------|-------|-------|------|-------|-------------|-----|----------------|
|     | Technolog        | y (ICT) in | book- | keep  | ing.  |      |       |             |     |                |

| 1 |     |
|---|-----|
| 2 |     |
|   | [2] |

[Total: 8]

2 Sally Major's cash book (bank column) had a debit balance of \$619 on 31 July 2006. The bank statement balance on 31 July 2006 was \$1594 credit.

After checking the cash book against the bank statement the following differences were found:

- 1 A cheque for \$710 issued to Jon Fletcher had not been presented to the bank for payment.
- 2 An amount of \$1150 paid into a local bank branch by Sally did not appear on the bank statement.
- 3 Bank charges of \$170 shown on the bank statement, but had not been recorded in the cash book.
- 4 Dividends received, \$80, were shown on the bank statement but had not been recorded in the cash book.
- 5 A payment of \$5 cash for travel expenses had incorrectly been credited in the bank column of the cash book.
- The bank statement showed a bank loan for \$1500 had been transferred into the bank current account. Sally Major was not expecting this transfer to take place until 1 August and had not yet recorded the transaction in her books.

#### **REQUIRED**

(a) Starting with the balance on 31 July 2006, update the cash book and bring down the amended balance.

| Dr | Cash Book | Sally Major<br>(bank columns | 3) | Cr          |
|----|-----------|------------------------------|----|-------------|
|    |           |                              |    | <br>        |
|    |           |                              |    | <br><br>[5] |
|    |           |                              |    | <br>[~]     |

For Examiner's Use

**(b)** Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2006.

# Sally Major Bank Reconciliation Statement at 31 July 2006

| <br> | <br>    |
|------|---------|
| <br> | <br>    |
|      |         |
| <br> | <br>    |
| <br> | <br>    |
| <br> | <br>[4] |

[Total: 9]

**3** Jenny Palmer started business on 1 July 2006. 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 the start of August 2006.

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 stock was valued at \$240 on 31 July.

| (a) | Calculate the total sales for the month ended 31 July 2006.       |
|-----|-------------------------------------------------------------------|
|     |                                                                   |
|     |                                                                   |
|     |                                                                   |
|     |                                                                   |
|     |                                                                   |
|     | [5]                                                               |
|     |                                                                   |
| (b) | Calculate the amount Jenny Palmer owes creditors at 31 July 2006. |
|     |                                                                   |
|     |                                                                   |
|     |                                                                   |
|     |                                                                   |
|     |                                                                   |
|     | [3]                                                               |
|     |                                                                   |

| (c) | Calculate Jenny Palmer's gross profit for the month ended 31 July 2006. |
|-----|-------------------------------------------------------------------------|
|     |                                                                         |
|     |                                                                         |
|     |                                                                         |
|     |                                                                         |
|     |                                                                         |
|     | [3]                                                                     |

Jenny has one employee who had been paid for 120 hours at \$5 per hour and six hours overtime at time and a half. Tax and social security deducted from pay was £136. Jenny also has to pay \$45 for her employer's share of social security contributions. The total tax and social security is due to be paid to the tax authorities on 19 August.

#### **REQUIRED**

(d) Prepare a journal entry to record the entries made in July 2006 for wages and statutory deductions. A narration is **not** required. Clearly show your calculations in the space below.

| Jenny Palme            | r         |           |
|------------------------|-----------|-----------|
| Jenny Palme<br>Journal |           |           |
|                        | Dr.<br>\$ | Cr.<br>\$ |
|                        |           |           |
|                        |           |           |
|                        |           |           |
|                        |           | [6]       |
| Workings:              |           |           |

Jenny paid sundry expenses of \$1650 during July.

## **REQUIRED**

**(e)** Prepare Jenny Palmer's profit and loss account for the month ended 31 July 2006 using the information given and your answers above.

Jenny Palmer
Profit and Loss Account for the month ended 31 July 2006

| 15 |
|----|

Jenny's notes also showed the following:

- 1 Jenny started business on 1 July with \$2000 in cash as capital.
- 2 She purchased equipment costing \$1200 on 1 July.
- 3 She took \$550 cash from the business for personal use during July.
- 4 She had \$71 in cash and \$1370 in the bank on 31 July.

## **REQUIRED**

(f) Draw up a Statement of Affairs for Jenny Palmer at 31 July 2006 using the information given and your answers above.

# Jenny Palmer Statement of Affairs at 31 July 2006

| [8] |
|-----|

[Total: 30]

4 The following information was extracted from the books of Jack Lightbourne for the year ended 31 July 2006.

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

## **REQUIRED**

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

|       |                           | Workings |   |
|-------|---------------------------|----------|---|
| (i)   | Gross profit/sales        |          | % |
| (ii)  | Net profit/sales          |          | % |
| (iii) | Rate of stock<br>turnover |          |   |

For Examiner's Use

| (iv) | Working capital<br>(current) ratio |  |  |
|------|------------------------------------|--|--|
| (v)  | Quick ratio<br>(acid test)         |  |  |
| [10] |                                    |  |  |

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

| gest how Ja<br>competitive | ick could impr<br>level. | ove his ratio | os for gross | profit/sales | and net profi | t/sales |
|----------------------------|--------------------------|---------------|--------------|--------------|---------------|---------|
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               |         |
| <br>                       |                          |               |              |              |               | [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:

- 1 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 clearly a customer will not pay.

| - \_ |      |                                                                                                                                                                             |  |  |  |
|------|------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
| (c)  | (i)  | State the bases on which stock and trade debtors should be valued.                                                                                                          |  |  |  |
|      |      | Stock                                                                                                                                                                       |  |  |  |
|      |      |                                                                                                                                                                             |  |  |  |
|      |      | Trade debtors                                                                                                                                                               |  |  |  |
|      |      | [2]                                                                                                                                                                         |  |  |  |
|      | (ii) | Identify and explain the accounting concept which should be applied when valuing stock and debtors.                                                                         |  |  |  |
|      |      | Concept                                                                                                                                                                     |  |  |  |
|      |      | Explanation                                                                                                                                                                 |  |  |  |
|      |      | [3]                                                                                                                                                                         |  |  |  |
| (d)  | to i | plain <b>two</b> reasons why an accountant would consider it is professionally unethical mprove the financial results of Jack Lightbourne by making the adjustments gested. |  |  |  |
|      | 1    |                                                                                                                                                                             |  |  |  |
|      |      |                                                                                                                                                                             |  |  |  |
|      |      |                                                                                                                                                                             |  |  |  |
|      | 2    |                                                                                                                                                                             |  |  |  |
|      |      |                                                                                                                                                                             |  |  |  |
|      |      |                                                                                                                                                                             |  |  |  |
|      |      | [4] [Total: 22]                                                                                                                                                             |  |  |  |

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

# Salvadore Ltd Balance Sheet (extract) at 31 July 2006

| Capital and Reserves           | Authorised     | Called-up<br>\$ |
|--------------------------------|----------------|-----------------|
| 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          |

| (a) | Explain the difference between authorised and called-up share capital.           |     |
|-----|----------------------------------------------------------------------------------|-----|
|     |                                                                                  |     |
|     |                                                                                  | •   |
|     | [2]                                                                              | ]   |
| /b\ |                                                                                  |     |
| (D) | Explain <b>two</b> differences between preference shares and ordinary shares.  1 |     |
|     |                                                                                  | ••• |
|     | 2                                                                                |     |
|     | [2]                                                                              |     |
| (c) | Explain why a company uses a general reserve.                                    |     |
|     |                                                                                  | •   |
|     | [1                                                                               | 1   |
|     |                                                                                  | -   |

For Examiner's Use

| Compare the capital structure, as disclosed in a balance sheet, of a limited company with that of a partnership. |
|------------------------------------------------------------------------------------------------------------------|
|                                                                                                                  |
|                                                                                                                  |
|                                                                                                                  |
|                                                                                                                  |
|                                                                                                                  |
|                                                                                                                  |
|                                                                                                                  |
|                                                                                                                  |
| [4]                                                                                                              |
| [+]                                                                                                              |
| Large companies apply international accounting standards when preparing their accounts.                          |
| QUIRED                                                                                                           |
| Explain <b>two</b> benefits of a system of international accounting standards.                                   |
|                                                                                                                  |
| 1                                                                                                                |
|                                                                                                                  |
| 2                                                                                                                |
| 2 [2]                                                                                                            |
| 2                                                                                                                |
| 2 [2]                                                                                                            |
| 2 [2]                                                                                                            |
|                                                                                                                  |

© UCLES 2006

## Answer Question 6 in this booklet or on separate multi-column accounting paper.

**6** Alison Brown is a manufacturer. The following balances were extracted from the books on 31 July 2006.

# Alison Brown Trial Balance at 31 July 2006

|                                                           | \$      |
|-----------------------------------------------------------|---------|
| 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   |
| 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   |
| Debtors                                                   | 84 350  |
| Bank (Dr)                                                 | 2 050   |
| Creditors                                                 | 64 160  |
| Capital                                                   | 92 160  |
| Drawings                                                  | 12 300  |

## Additional information:

1 Stock at 31 July 2006 was valued as follows:

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

- 2 At 31 July 2006:
  - (i) Direct factory wages, \$16 550, were accrued.
  - (ii) Office salaries, \$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 2006. No other changes in fixed assets occurred in the year ended 31 July 2006. 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, \$960, from the business during the year. This has not been included in the books.

#### **REQUIRED**

- (a) Prepare the manufacturing account of Alison Brown for the year ended 31 July 2007. Show clearly cost of raw materials consumed, prime cost and cost of production. [11]
- (b) Prepare the trading and profit and loss accounts of Alison Brown for the year ended 1 July 2007. [13]
- (c) Prepare the balance sheet of Alison Brown at 1 July 2007.

[Total: 40]

[16]

| <br> |
|------|
| <br> |
|      |
| <br> |
| <br> |
| <br> |
|      |
| <br> |
|      |
|      |
|      |
|      |
| <br> |
|      |
|      |
|      |
|      |
|      |

| Question | Syllabus<br>Reference | <b>A</b> : Knowledge with understanding | B: Analysis | C: Evaluation | Total<br>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            |

Copyright Acknowledgements:

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.