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

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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	$\sqrt{}$
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 two 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	2]

(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 two	benefits	Jack	Trail	gains	from	using	Information	and	Communications
	Technology	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	Sa Cash Book (b	ally Major ank columns)	Cr
D 1	Caon Book (b		,	O1

				 [5]
				 [~]

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(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

	[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 Palmer Journal		
Joannai	Dr. \$	Cr. \$
		[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

[5]

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 turnover		

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(iv)	Working capital (current) ratio	
(v)	Quick ratio (acid test)	
		[10]

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

(b)	Suggest how Jack could improve his ratios for gross profit/sales and net profit/sa to a competitive level.	les
		[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.

NEGOINED				
(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]		
		[o]		
(d)	to i	lain two 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 \$
	Ψ	Φ
Preference shares of \$1 each	100 000	40 000
Ordinary shares of \$0.50 each	<u>100 000</u>	<u>50 000</u>
	200 000	90 000
General reserve	<u> </u>	80 000
Profit and loss account		43 900

NE.	NEQUINED				
(a)	Explain the difference between authorised and called-up share capital.				
	[2]				
(b)	Explain two differences between preference shares and ordinary shares.				
	1				
	2				
	[2]				
(c)	Explain why a company uses a general reserve.				
	[1]				

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(d)	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.
RE	QUIRED
(e)	Explain two benefits of a system of international accounting standards.
	1
	2
	[2]
	[Total: 11]

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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	132 160
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]

Question	Syllabus Reference	A: Knowledge with understanding	B: Analysis	C: Evaluation	Total 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

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