| Centre Number | Candidate Number | Name |
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## UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS<br>7110/02<br>Paper 2<br>Specimen paper for examination from 2008<br>2 hours<br>Candidates answer on the Question Paper<br>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 multicolumn 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 $\mathbf{2 0}$ printed pages.

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

Marianne Hindle account

| 2006 |  | Dr <br> $\$$ | Cr <br> $\$$ | Balance <br> $\$$ |
| :--- | :--- | :---: | :---: | :---: |
| 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 |  |

(b) State the type of discount recorded in the ledger account on 4 July.
$\qquad$
(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
(d) Identify the heading under which Marianne Hindle's account would be recorded in Jack

For Examiner's Use Trail's balance sheet at 12 July. Tick the appropriate box.

| Heading | $\checkmark$ |
| :--- | :--- |
| Fixed assets |  |
| Current assets |  |
| Current liabilities |  |
| Long-term liabilities |  |

(e) State two benefits Jack Trail gains from using Information and Communications Technology (ICT) in book-keeping.

1
$\qquad$
2

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

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
6 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.

```
                    Sally Major
Dr
Cash Book (bank columns)
Cr
``` pay.

\section*{statement.}
\begin{tabular}{lll} 
Dr & \begin{tabular}{c} 
Sally Major \\
(bank columns)
\end{tabular} & Cr
\end{tabular}
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
(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
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
[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.

\section*{REQUIRED}
(a) Calculate the total sales for the month ended 31 July 2006.
\(\qquad\)
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\(\qquad\)
(b) Calculate the amount Jenny Palmer owes creditors at 31 July 2006.
\(\qquad\)
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\(\qquad\)
(c) Calculate Jenny Palmer's gross profit for the month ended 31 July 2006.
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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.

\section*{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.

\(\qquad\)
Workings:

Jenny paid sundry expenses of \(\$ 1650\) during July.

\section*{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.

\author{
Jenny Palmer
}

Profit and Loss Account for the month ended 31 July 2006
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)

\section*{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.

\section*{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
\(\qquad\)
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4 The following information was extracted from the books of Jack Lightbourne for the year ended 31 July 2006.
\begin{tabular}{lr} 
& \multicolumn{1}{c}{\(\$\)} \\
Sales & 174600 \\
Opening stock & 6350 \\
Purchases & 89150 \\
Closing stock & 8200 \\
Sundry expenses & 69840 \\
Drawings & 6984 \\
Current assets & 24600 \\
Current liabilities & 16400
\end{tabular}

\section*{REQUIRED}
(a) Calculate, to one decimal place, the following ratios. Show your workings in the box provided.
\begin{tabular}{|l|c|c|c|}
\hline & & Workings & \\
\hline (i) & Gross profit/sales & & \(\%\) \\
(ii) & \begin{tabular}{c} 
Net profit/sales
\end{tabular} & & \(\%\) \\
\hline (iii) & \begin{tabular}{c} 
Rate of stock \\
turnover
\end{tabular} & & \\
\hline & & \\
\hline
\end{tabular}
\begin{tabular}{|l|l|l|l|}
\hline (iv) & \begin{tabular}{c} 
Working capital \\
(current) ratio
\end{tabular} & & \\
\hline (v) & \begin{tabular}{c} 
Quick ratio \\
(acid test)
\end{tabular} & & \\
\hline
\end{tabular}

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

\section*{REQUIRED}
(b) Suggest how Jack could improve his ratios for gross profit/sales and net profit/sales to a competitive level.
\(\qquad\)
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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.

\section*{REQUIRED}
(c) (i) State the bases on which stock and trade debtors should be valued.

Stock \(\qquad\)
\(\qquad\)
Trade debtors \(\qquad\)
(ii) Identify and explain the accounting concept which should be applied when valuing stock and debtors.

Concept \(\qquad\)
Explanation \(\qquad\)
(d) Explain two reasons why an accountant would consider it is professionally unethical to improve the financial results of Jack Lightbourne by making the adjustments suggested.

1 \(\qquad\)
\(\qquad\)
\(\qquad\)
2 \(\qquad\)
\(\qquad\)
\(\qquad\)

5 The capital and reserves of Salvadore Ltd are as follows:
Salvadore Ltd
Balance Sheet (extract) at 31 July 2006
\begin{tabular}{lcc} 
Capital and Reserves & \begin{tabular}{c} 
Authorised \\
\(\$\)
\end{tabular} & \begin{tabular}{c} 
Called-up \\
\(\$\)
\end{tabular} \\
Preference shares of \(\$ 1\) each & 100000 & 40000 \\
Ordinary shares of \(\$ 0.50\) each & \(\underline{100000}\) & \(\underline{50000}\) \\
General reserve & \(\underline{900000}\) & 80000 \\
Profit and loss account & & 43900
\end{tabular}

\section*{REQUIRED}
(a) Explain the difference between authorised and called-up share capital.
\(\qquad\)
\(\qquad\)
\(\qquad\)
\(\qquad\)
(b) Explain two differences between preference shares and ordinary shares.

1
\(\qquad\)

2 \(\qquad\)
\(\qquad\)
(c) Explain why a company uses a general reserve.
\(\qquad\)
\(\qquad\)
\(\qquad\)
(d) Compare the capital structure, as disclosed in a balance sheet, of a limited company with that of a partnership.
\(\qquad\)
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Large companies apply international accounting standards when preparing their accounts.

\section*{REQUIRED}
(e) Explain two benefits of a system of international accounting standards.

1
\(\qquad\)
2

\section*{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 34760
Work in progress 4820
Finished goods 8300
Purchases of raw materials 396300
Purchases of finished goods 11340
Carriage on purchases of raw materials 1200
Sales 798200
Sales returns 6400
Direct factory wages 198600
Factory manager's salary 18600
Office salaries 43330
Sundry factory expenses 24360
Sundry office expenses 18950
Distribution costs 23460
Land and buildings (cost) 40000
Factory plant and machinery (cost) 96000
Office equipment (cost) 17400
Provision for depreciation of factory plant and machinery 42000
Provision for depreciation of office equipment 6000
Debtors 84350
Bank (Dr) 2050
Creditors 64160
Capital 132160
Drawings 12300
\begin{tabular}{lr}
\multicolumn{2}{c}{\begin{tabular}{c} 
Alison Brown \\
\\
Trial Balance at 31 July 2006
\end{tabular}} \\
& \\
& \multicolumn{1}{l}{} \\
Stock at 1 August 2005 & \\
\(\quad\) Raw materials & 34760 \\
Work in progress & 4820 \\
Finished goods & 8300 \\
Purchases of raw materials & 396300 \\
Purchases of finished goods & 11340 \\
Carriage on purchases of raw materials & 1200 \\
Sales & 798200 \\
Sales returns & 6400 \\
Direct factory wages & 198600 \\
Factory manager's salary & 18600 \\
Office salaries & 43330 \\
Sundry factory expenses & 24360 \\
Sundry office expenses & 18950 \\
Distribution costs & 23460 \\
Land and buildings (cost) & 40000 \\
Factory plant and machinery (cost) & 96000 \\
Office equipment (cost) & 17400 \\
Provision for depreciation of factory plant and machinery & 42000 \\
Provision for depreciation of office equipment & 6000 \\
Debtors & 84350 \\
Bank (Dr) & 2050 \\
Creditors & 64160 \\
Capital & 132160 \\
Drawings & 12300
\end{tabular}

Additional information:

1 Stock at 31 July 2006 was valued as follows:

> \$
\begin{tabular}{lr} 
& \(\$\) \\
Raw materials & 47290 \\
Work in progress & 4670 \\
Finished goods & 9200
\end{tabular}

Work in progress 4670
Finished goods 9200
2 At 31 July 2006:
(i) Direct factory wages, \(\$ 16550\), 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.

\section*{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.
(b) Prepare the trading and profit and loss accounts of Alison Brown for the year ended 1 July 2007.
(c) Prepare the balance sheet of Alison Brown at 1 July 2007.
[Total: 40]
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\begin{tabular}{|c|c|c|c|c|c|}
\hline Question & Syllabus Reference & A: Knowledge with understanding & B: Analysis & C: Evaluation & Total Marks \\
\hline 1(a) & 1.3, 1.7 & 2 & & & \\
\hline 1(b) & 1.4, 1.7 & 1 & & & \\
\hline 1(c) & 1.4 & 2 & & & \\
\hline 1(d) & 3.2 & 1 & & & \\
\hline 1(e) & 1.1 & 2 & & & 8 \\
\hline 2(a) & 1.5 & & 5 & & \\
\hline 2(b) & 1.5 & & 4 & & 9 \\
\hline 3(a) & 2.4, 4.4 & 5 & & & \\
\hline 3(b) & 2.4, 4.4 & 3 & & & \\
\hline 3(c) & 4.4 & 3 & & & \\
\hline 3(d) & 5.1, 5.2 & & 6 & & \\
\hline 3(e) & 4.1 & & 5 & & \\
\hline 3(f) & 4.4 & & 8 & & 30 \\
\hline 4(a) & 6.1 & & & 10 & \\
\hline 4(b) & 6.1 & & & 3 & \\
\hline 4(c)(i) & 3.2 & 2 & & & \\
\hline 4(c)(ii) & 6.2 & 3 & & & \\
\hline 4(d) & 6.2 & & & 4 & 22 \\
\hline 5(a) & 4.5 & 2 & & & \\
\hline 5(b) & 4.5 & 2 & & & \\
\hline 5(c) & 4.5 & 1 & & & \\
\hline 5(d) & 4.2, 4.5 & & & 4 & \\
\hline 5(e) & 6.2 & & & 2 & 11 \\
\hline 6(a) & 4.6 & & 11 & & \\
\hline 6(b) & 4.6 & & 13 & & \\
\hline 6(c) & 4.6 & & 16 & & 40 \\
\hline & & & & & \\
\hline Total & & 29 & 68 & 23 & 120 \\
\hline
\end{tabular}

\footnotetext{
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