

CANDIDATE
NAME

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PRINCIPLES OF ACCOUNTS

Paper 2

7110/21

May/June 2016

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 Faara had the following assets and liabilities on 1 May 2015.

		\$
Inventory		2850
Trade receivable – Jaafar		600
Other payables – Electricity		200
Bank		450 Credit
5% Bank loan (30 September 2020)		5000
Motor vehicle		4500

REQUIRED

(a) Calculate Faara's capital.

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The following transactions related to the account of Jaafar for the month ended 31 May 2015.

- May 4 Sold goods to Jaafar, list price \$1500, allowed 15% trade discount.
- 5 Jaafar returned goods purchased on 4 May, list price \$120.
- 16 Jaafar paid the amount owing on 1 May by cheque and was allowed 2% cash discount.

REQUIRED

- (b) Prepare the ledger account of Jaafar for the month of May 2015. Balance the account and bring down the balance on 1 June 2015.

Jaafar account

Date	Details	\$	Date	Details	\$

[5]

- (c) State **two** possible reasons why Faara allowed trade discount to Jaafar.

1

2 [2]

The following information related to the electricity account for the month ended 31 May 2015.

- May 17 Paid for electricity by cheque \$440.
 31 Prepared the income statement. It was estimated that \$55 was owed for electricity at that date.

REQUIRED

- (d) Prepare the electricity account for the month of May 2015. Balance the account and bring down the balance on 1 June 2015.

Electricity account

Date	Details	\$	Date	Details	\$

[5]

- (e) Name the accounting concept applied to the calculation of electricity expense when preparing the income statement at 31 May 2015.

.....[1]

- (f) Complete the following table for the transactions shown. Name the source document prepared by Faara and the book of prime entry used, and state the effect of the transaction on her capital. The first item has been completed as an example.

		Source document	Book of prime entry	Effect on owner's capital (\$)
May 9	Sold goods on credit for \$900, (cost \$600).	<i>Sales invoice</i>	<i>Sales journal</i>	<i>+300</i>
14	Customer returned goods, bought by him on 9 May for \$300.			
21	Paid wages in cash \$150.			

[6]

[Total: 20]

2 The following balances were recorded in the books of Sofea on 1 March 2015.

	\$
Motor vehicles account (at cost)	50 000
Motor vehicles – provision for depreciation account	18 400

Additional information

- 1 On 31 May 2015 a motor vehicle costing \$16 000 and with an accumulated depreciation of \$7000 was sold for \$8400.
- 2 On 30 June 2015 a motor vehicle costing \$20 000 was purchased on credit.
- 3 The depreciation policy of Sofea is as follows:

Motor vehicles are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

A full year’s depreciation is charged in the year of purchase.

No depreciation is charged in the year of sale.

REQUIRED

(a) State the meaning of the accounting term depreciation.

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.....[2]

(b) Identify by ticking the appropriate box (✓) whether **each** statement about depreciation is true or false. The first one has been completed as an example.

Statement	True	False
<i>There is only one method of charging depreciation.</i>		✓
Depreciation is the cash set aside for non-current asset replacement.		
Depreciation is an application of the going concern concept.		

[2]

(c) Calculate the:

(i) profit or loss on the sale of the motor vehicle on 31 May 2015.

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 [1]

(ii) motor vehicles depreciation charge for the year ended 29 February 2016.

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 [2]

(d) Prepare the motor vehicles provision for depreciation account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016.

Motor vehicles provision for depreciation account

Date	Details	\$	Date	Details	\$

[5]

Sofea provided the following information about her trade receivables.

- 1 On 28 February 2016 Wade Designs, which owed Sofea \$5100, was declared bankrupt. A cheque for \$1800 was received. The balance of the debt was irrecoverable.
- 2 On 29 February 2016 the remaining trade receivables were:

Age of debt (Months)	Amount \$	Provision for doubtful debts percentage (%)
Up to 1 month	18 000	2
1 to 3 months	12 200	5
3 to 6 months	3 300	10
Over 6 months	<u>2 200</u>	20
	35 700	

On 1 March 2015 the provision for doubtful debts account was \$2050.

REQUIRED

- (e) Prepare the general journal to record the entries for Wade Designs on 28 February 2016. A narrative is **not** required.

General journal

	Debit \$	Credit \$
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[3]

- (f) Calculate the provision for doubtful debts on 29 February 2016.

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- (g) Prepare the provision for doubtful debts account for the year ended 29 February 2016. Balance the account and bring down the balance on 1 March 2016.

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[3]

- (h) Name **one** accounting concept applied by Sofea in providing for doubtful debts.

.....[1]

[Total: 20]

Question 3 is on the next page.

- 3 Alif is a trader. He does not maintain a full set of accounting records but the following information is available.

- 1 Summarised bank transactions for the year ended 31 March 2016

Receipts	\$	Payments	\$
Trade receivables	32 000	Trade payables	29 000
Cash sales banked	7 400	Purchase of equipment	2 500
Interest receivable	600	Rent	8 000
		Other operating expenses	6 500

- 2 All cash sales were banked on the day of receipt with the exception of the following which were paid out of cash receipts.

	\$
Wages	9 000
Drawings	11 500

- 3 Balances at:

	1 April 2015	31 March 2016
	\$	\$
Equipment (net book value)	11 000	10 500
Inventory	12 000	11 500
Trade receivables	17 600	18 350
Trade payables	9 750	7 950
Wages owing	300	450
Rent prepaid	500	700
Bank	3 950 Debit	?
Capital	35 000	?

REQUIRED

(a) Calculate, for the year ended 31 March 2016, the value of the following:

(i) revenue (sales)

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(ii) purchases.

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4 Lache's accounting year ends on 31 December. The following information is available.

	2015	2014
	\$	\$
Revenue	750 000	600 000
Expenses	200 000	175 000
Profit for the year	100 000	50 000
Capital	250 000	250 000
Bank loan repayable 30 December 2014	–	120 000
Bank loan repayable 30 December 2020	80 000	–
Inventory	60 000	260 000
Trade receivables	22 000	40 000
Trade payables	50 000	60 000
Other receivables	1 500	2 500
Other payables	8 500	3 500
Bank	28 000 Debit	40 000 Credit

REQUIRED

(a) Calculate the following ratios for 2015. Comparative figures for 2014 are shown. Your answers should be calculated to **one** decimal place.

	Workings	Answer	2014
Gross profit to revenue (Gross profit margin)			37.5%
Return on capital employed (ROCE) based on profit for the year			20%
Current ratio (Working capital ratio)			2.9:1
Quick ratio (acid test ratio)			0.4:1

[12]

(b) Using the ratios calculated in **(a)** and the information provided, comment on the:

(i) profitability over the two years

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(ii) liquidity over the two years.

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[Total: 20]

- 5 Suria is in business as a sole trader. The following balances were extracted from her books on 31 March 2016.

	\$	
Revenue	287 000	
Purchases	143 800	
Returns inwards	3 150	
Inventory at 1 April 2015	15 340	
Capital	70 000	
Drawings	28 000	
Leasehold premises at cost (25 year lease)	100 000	
Computers at cost	44 000	
Office furniture at cost	15 500	
Provisions for depreciation:		
Leasehold premises	7 000	
Computers	16 600	
Office furniture	12 000	
Wages and salaries	26 500	
Computer maintenance	12 200	
Commission receivable	4 900	
Rent and rates	10 000	
Provision for doubtful debts	910	
6% Bank loan (repayable 30 June 2016)	40 000	
Bank interest paid	1 500	
Heat and light	7 300	
Advertising	12 600	
General expenses	8 700	
Cash and bank	520	Debit
Trade payables	18 600	
Trade receivables	27 900	

Additional information at 31 March 2016

- 1 Inventory was valued at \$17 990.
- 2 Commission receivable of \$1 400 was outstanding.
- 3 Advertising included a payment of \$5 700 for a series of advertisements being published in the six months ending 31 July 2016.
- 4 General expenses accrued were \$2 400.
- 5 A computer costing \$8 000 had been recorded in the computer maintenance account.
- 6 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - (i) an appropriate amount on the leasehold premises
 - (ii) computers at the rate of 25% per annum using the diminishing (reducing) balance method
 - (iii) office furniture at the rate of 10% per annum using the straight-line method.
- 7 Trade receivables of \$1 900 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

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