

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

PRINCIPLES OF ACCOUNTS

7110/02

Paper 2

May/June 2004

1 hour 45 minutes

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 in the spaces provided on the Question Paper.
You may use a soft pencil for rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
Question 5 should be answered on pages 11 and 12 or multi-column accounting paper. If you use multi-column accounting paper, attach your answer to Question 5 to this booklet.
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.
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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

This document consists of **9** printed pages, **2** lined pages and **1** blank page.

BLANK PAGE

Turn to page 4 for Question 2.

2 The summarised Balance Sheet of Pat Kaye on 31 December 2003 was as follows.

Pat Kaye
Summarised Balance Sheet as at 31 December 2003

	\$		\$		\$		\$
Fixed Assets		19 000		Capital		20 000	
				Net profit		<u>9 500</u>	
Current Assets						29 500	
Stock	14 300			Drawings		<u>(8 400)</u>	
Trade debtors	7 900					21 100	
Cash	<u>2 000</u>			Long-term loan		10 000	
		24 200		Current Liabilities			
				Trade creditors	10 000		
				Accruals	<u>2 100</u>	<u>12 100</u>	
		<u>43 200</u>				<u>43 200</u>	

REQUIRED

(a) Explain how Pat Kaye should value the following.

(i) Fixed Assets

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.....

.....

.....[3]

(ii) Stock

.....

.....

.....

.....[3]

(iii) Trade debtors

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.....

.....[2]

(b) Calculate the following for Pat Kaye at 31 December 2003.

(i) The working capital

.....

[3]

(ii) Net profit as a percentage of opening capital

.....

[3]

(c) Complete the table to show the effects on working capital and net profit of the following items. The first item has been completed for you as an example.

Item	Effect on working capital \$	Effect on net profit \$
(i) There is no record of a cheque for \$500 sent in part repayment for a loan	Decrease 500	No effect
(ii) Obsolete closing stock, \$400, is to be written off		
(iii) A provision for doubtful debts, \$100, is to be created		
(iv) The depreciation charge is to be increased by \$200		
(v) A fixed asset is to be sold at its net book value, \$1000		

[8]

[Total: 22]

- 3 The following incomplete trial balance was drawn up by Link Ltd on 31 December 2003.

Link Ltd
Trial Balance as at 31 December 2003

	Dr \$	Cr \$
Sales		241 200
Purchases	126 300	
Stock, 1 January 2003	20 100	
General expenses	66 700	
Motor expenses	48 900	
Motor vehicles	26 000	
Provision for depreciation for motor vehicles		13 000
Plant and equipment	48 000	
Provision for depreciation for plant and equipment		12 000
Debtors	22 000	
Creditors		10 600
Cash at bank	1 000	
Share capital		30 000
Net profit for the year ended 31 December 2003		4 600
Suspense account	_____	_____
	_____	_____

REQUIRED

- (a) (i) Calculate the total of the debit column of the above trial balance. Insert your answer in the trial balance above.
- (ii) Calculate the total of the credit column. Use this figure to calculate the balance of the suspense account.
- (iii) Insert your suspense account balance in the trial balance above and total.

[3]

- (b) Investigation identified the following errors and omissions.

- 1 The Profit and Loss Account balance at 1 January 2003 was not included in the trial balance. It was \$47 000.
- 2 A poorly written figure in a debtor's account meant that total debtors was incorrectly recorded in the trial balance. The correct figure for debtors is \$22 600.
- 3 The provision for doubtful debts of \$1200 at 1 January 2003 has been omitted from the trial balance.

Draw up the suspense account for Link Ltd showing the original balance and corrections.

Suspense account

Dr

Cr

.....

.....

.....

.....[4]

(c) State the uses of the trial balance.

.....

.....

.....

.....[3]

(d) List five errors which do not affect the trial balance.

(i)

.....

(ii)

.....

(iii)

.....

(iv)

.....

(v)

.....

[5]

[Total: 15]

4 Habib provides the following information.

Fixed Asset	Cost \$	Depreciation method
Computer	2000	Diminishing (reducing) balance – 60% per annum
Office furniture	3000	Straight-line – 10% per annum
Loose tools	800	Revaluation

REQUIRED

(a) Explain the following methods of depreciation.

(i) Diminishing (reducing) balance

.....

[2]

(ii) Straight-line

.....

[2]

(iii) Revaluation

.....

[2]

(b) Using the above figures, calculate the depreciation in Years 1 and 2 for each asset.

(i) Computer

Year 1 depreciation.....

 Year 2 depreciation.....

[2]

(ii) Office furniture

Year 1 depreciation

.....

.....

Year 2 depreciation

.....

.....[2]

(iii) Loose tools

(Assume the value of loose tools at the end of Year 1 was \$600 and was \$350 at the end of Year 2.)

Year 1

.....

.....

Year 2

.....

.....[2]

(c) Comment on the suitability of each depreciation method for the three fixed assets.

(i) Computer

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.....

(ii) Office furniture

.....

.....

.....

(iii) Loose tools

.....

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.....[6]

[Total: 18]

Answer Question 5 on pages 11 and 12 or on separate multi-column accounting paper.

- 5 Sue Lim and Vanessa Jackson are in partnership providing secretarial services. They share profits and losses in the ratio 3:2 respectively.

The following trial balance was extracted from the books of the partnership on 31 December 2003.

Sue Lim and Vanessa Jackson Trial Balance as at 31 December 2003		
	Dr	Cr
	\$	\$
Fees (income)		125 300
Rent	26 000	
Staff salaries	18 600	
Sundry expenses	34 400	
Bad debts	1 600	
Provision for doubtful debts 1 January 2003		330
Bank	90	
Office equipment	28 000	
Provision for depreciation for office equipment		14 000
Debtors	18 300	
Creditors		900
Capital accounts 1 January 2003		
Sue Lim		20 000
Vanessa Jackson		10 000
Current accounts 1 January 2003		
Sue Lim		5 600
Vanessa Jackson		3 720
Drawings		
Sue Lim	28 720	
Vanessa Jackson	24 140	
	<u>179 850</u>	<u>179 850</u>

Additional information

- 1 Rent paid in advance on 31 December 2003 amounted to \$2000.
- 2 Staff salaries totalling \$790 were owing at 31 December 2003.
- 3 Office equipment is depreciated at 50% per annum using the diminishing (reducing) balance method.
- 4 The provision for doubtful debts is to be adjusted to 5% of debtors.
- 5 Vanessa Jackson is entitled to a partnership salary of \$6000 for the year.

REQUIRED

- (a) Prepare the Profit and Loss Account and Appropriation Account of Sue Lim and Vanessa Jackson for the year ended 31 December 2003. [17]
- (b) Prepare the partnership Balance Sheet as at 31 December 2003. [18]

Note: Current account details may be included within the Balance Sheet (liabilities) or in account format outside.

[Total: 35]

