

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

PRINCIPLES OF ACCOUNTS

7110/02

Paper 2

May/June 2003

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

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Total

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

This document consists of **10** printed pages and **2** lined pages.



- 1 Peter Dlamini's Cash Book (bank column) had a debit balance of \$515 on 30 April 2003. This did not agree with the bank statement of the same date, which showed a balance of \$290.

The Cash Book was checked against the bank statement and the following differences were found:

- 1. Cheques totalling \$620 issued to creditors had not been presented to the bank for payment.
- 2. An amount of \$950 paid into the bank did not appear on the bank statement.
- 3. Cash sales deposited into the bank amounting to \$390 had been omitted from the Cash Book.
- 4. The bank had received \$150 by credit transfer (bank giro) from Klerk for Dlamini's account. Dlamini had not been advised.
- 5. A cheque for \$315 received from Joseph had been paid into the bank but it had now been returned unpaid. No action has been taken by Dlamini.
- 6. The following transaction by the bank had not been recorded in the Cash Book:

Bank charges \$120

REQUIRED:

- (a) Prepare an up-dated and balanced Cash Book.

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(b) Prepare a correctly headed statement to reconcile the adjusted Cash Book balance with the bank statement balance at 30 April 2003.

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- 2 N. Mann is a sole trader who does not keep the books of the business on the double entry system. However, the following information is available from the records:

	1 January 2002	31 December 2002
	\$	\$
Debtors	8 480	10 160
Creditors	7 560	6 200
Stock	4 360	5 640

All sales and purchases are made on a credit basis.

Receipts from debtors during the year ended 31 December 2002 amounted to \$54 800.

Payments to creditors during the year ended 31 December 2002 amounted to \$32 640.

REQUIRED:

- (a) Calculate the sales and purchases totals for the year ended 31 December 2002.

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(b) Give the basis for the valuation of stock. Suggest why businesses use this basis.

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(c) Calculate the rate of stock turnover.

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(d) Explain how Mann could use the information from **(c)**.

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3 The details of the capital structure of Mahon Ltd are as follows:

Authorised Share Capital

- 3 000 000 ordinary shares of \$1 each
- 300 000 12% preference shares of \$1 each
- 300 000 10% preference shares of \$1 each

Issued Share Capital

- 800 000 ordinary shares of \$1 each, fully paid, issued on 15 May 1971
- 200 000 12% preference shares \$1 each, fully paid, issued on 15 May 1995
- 150 000 10% preference shares \$1 each, fully paid, issued on 30 June 2002
- 150 000 10% preference shares \$1 each, fully paid, issued on 31 December 2002

Loan Capital

- \$400 000 10% debentures repayable 31 December 2009, issued on 1 January 1999

During the year ended 31 December 2002, the company made a trading profit of \$284 000 **before** payment of interest.

No interim dividends were paid during the year. The directors decided to pay the dividends due on the preference shares, to transfer \$50 000 to General Reserve, and to recommend a dividend of 15% on the ordinary shares.

The balance of profit brought forward from 2001 was \$10 600.

REQUIRED:

(a) Prepare the Profit and Loss Appropriation Account for the year ended 31 December 2002.

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(b) Describe **three** features of **each** of the following different types of capital:

- 1. Preference shares
- 2. Debentures

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Summarised Balance Sheet of W. Chell at 31 December 2002

	\$		\$
Fixed Assets	37 400	Capital	60 000
Current Assets		Net Profit	18 800
Stock	29 000		78 800
Debtors	12 200	Drawings	30 000
Cash	<u>1 800</u>		48 800
	43 000	Long Term Loan	5 000
		Current Liabilities	
		Trade Creditors	25 000
		Accrued Expenses	1 600
			26 600
	<u>80 400</u>		<u>80 400</u>

REQUIRED

(a) Calculate as at 31 December 2002:

(i) the Working Capital

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(ii) the owner's capital

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(iii) the Capital Employed

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(b) Explain what the figures for current assets and current liabilities tell you about Chell's financial position at 31 December 2002.

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Information regarding the years 2000 and 2001:

	Working Capital	Owner's Capital	Net Profit
	\$	\$	\$
31 December 2000	37 000	70 000	16 000
31 December 2001	28 000	60 000	17 500

(c) Using the results of your calculations for **(a)(i)** and **(ii)** and the information above, comment on the trends disclosed by the figures. Advise Chell on any course of action he should follow.

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- 5 A. Tree was in business as an import merchant and the following balances were extracted from his books on 31 December 2002:

	\$
Purchases	124 000
Sales	236 000
Wages	32 800
Motor Expenses	10 700
Sundry Expenses	600
Air Freight Charges on Purchases	20 200
Rent and Rates paid	11 200
Interest on loan from Sure	900
Loan from Sure at 1 January 2002	10 000
Creditors	10 280
Debtors	25 200
Stock at 1 January 2002	14 240
Fittings and Equipment	9 800
Motor Vehicles	44 000
Cash at Bank	4 360
Capital	61 720
Drawings	20 000

Additional information:

1. Stock at 31 December 2002 was valued at \$17 920.
2. Motor vehicles are to be depreciated by 20%.
3. Interest on the loan by Sure is at the rate of 12% per annum and has been paid to 30 September 2002.
4. A provision for doubtful debts of 5% of debtors is to be made.
5. One-quarter of the wages was for staff employed in re-packaging the goods for sale.
6. Rates amounting to \$800 had been paid in advance for the year 2003.

REQUIRED:

- (a) Prepare the Trading Account and the Profit and Loss Account for the year ended 31 December 2002. [19]
- (b) Prepare the Balance Sheet as at 31 December 2002. [15]

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A series of 30 horizontal dotted lines for writing, spanning the width of the page.