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Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE
NAME

CENTRE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 2014

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 Adil's transactions in August 2014 included the following.

- August 2 Purchased goods on credit from Tiara, \$1500, less 20% trade discount.
- August 5 Returned goods to Tiara, list price \$300.
- August 7 Paid a cheque to Tiara, \$500, after deducting \$6 cash discount.
- August 9 Sold non-current assets on credit to D Costa, at book value, \$4000.

REQUIRED

(a) Complete the following table for the above transactions. The first item has been completed as an example.

Date	Source document	Book of prime entry	Effect on owner's capital
August 2	<i>Purchase invoice</i>	<i>Purchases journal</i>	<i>No effect</i>
August 5			
August 7			
August 9			

[9]

(b) State the sub division of the ledger containing each of the following accounts:

Account	Sub division of the ledger
Purchases	
Tiara	
Non-current assets	
D Costa	

[4]

On 31 August 2014 Adil had the following balances in his books. He was aware that there were some book-keeping errors and that the trial balance would not balance.

	\$
Non-current assets	9 500
Trade payables	8 500
Trade receivables	7 250
Inventory	3 850
Bank overdraft	1 600
Purchases	14 400
Revenue	22 000
Bank loan	2 000
Capital	3 000

REQUIRED

- (c) Complete the trial balance at 31 August 2014, balancing the trial balance by the use of an appropriate account.

Adil
Trial Balance at 31 August 2014

	Debit	Credit
	\$	\$
Non-current assets		
Trade payables		
Trade receivables		
Inventory		
Bank overdraft		
Purchases		
Revenue		
Bank loan		
Capital		

[5]

[Total: 18]

2 The following information relates to the delivery vehicles of Swift Limited.

- 1 July 2012 Purchased delivery vehicle 1 for \$15 000.
- 1 July 2013 Purchased delivery vehicle 2 for \$20 000.
- 30 June 2014 Disposed of delivery vehicle 1 and received a cheque for \$8000.

Depreciation is charged at the rate of 20% using the diminishing (reducing) balance method.

REQUIRED

(a) State **two** causes of depreciation of a delivery vehicle.

- 1.....
 - 2.....
- [2]

(b) Complete the following table to show the depreciation charged for the years ended 30 June 2013 and 30 June 2014.

Year ended	Delivery vehicle 1	Delivery vehicle 2	Total for year
	\$	\$	\$
30 June 2013			
30 June 2014			
Total			

[3]

(c) Prepare the provision for depreciation of delivery vehicles account for the year ended 30 June 2014. Balance the account and bring down the balance.

Provision for depreciation of delivery vehicles account

Date	Details	\$	Date	Details	\$

[4]

- (d) Prepare the journal entries to record the disposal of delivery vehicle 1. Narratives are **not** required.

Journal

	Dr \$	Cr \$

[6]

- (e) Prepare an extract from the statement of financial position at 30 June 2014, showing the delivery vehicles.

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.....[2]

Swift Limited are considering the following expenditure on delivery vehicle 2.

- 1 Replacement tyres
- 2 A new trailer
- 3 An annual maintenance service.

REQUIRED

(f) State whether each of the items 1, 2 and 3 above is capital expenditure or revenue expenditure.

- 1
- 2
- 3

[3]

[Total: 20]

Question 3 is on the next page.

- 3 Wing Limited had the following balances in its books after the calculation of the profit for the year ended 30 September 2014.

	\$
Profit from operations (before debenture interest)	78 000
Issued and called up share capital:	
50 000 8% \$1 Preference shares	50 000
80 000 \$1 Ordinary shares	80 000
6% Debentures (31 December 2025)	100 000
Interim dividend paid 31 March 2014:	
Preference	2 000
Ordinary	8 000
General reserve	55 000
Retained profit 1 October 2013	35 000

Additional information

On 30 September 2014, the directors decided to:

- 1 increase the general reserve to \$80 000
- 2 pay the remaining preference dividend
- 3 pay a final ordinary share dividend of \$0.25 per share.

(e) State **one** reason why International Accounting Standards are important when preparing the financial statements of a limited company.

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.....[1]

[Total: 20]

4 Lai Yee provided the following information.

	\$
Profit from operations (before bank loan interest)	36 000
Capital	200 000
Trade payables	50 000
Trade receivables	45 000
8% Bank loan (repayable 2024)	100 000
Bank	60 000 Dr
Closing inventory	75 000
Cost of sales	480 000
Revenue	600 000

REQUIRED

(a) Calculate to **one** decimal place:

Ratio	Workings	Answer
Percentage gross profit/sales		
Percentage net profit/sales		
Return on capital employed (ROCE)		
Working capital ratio (Current ratio)		

[12]

(b) Comment upon the sufficiency of the working capital ratio (current ratio).

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.....[2]

Lai Yee is considering ways in which she might improve her return on capital employed (ROCE). She is considering the following proposals.

- 1 Introduce additional capital of \$10 000.
- 2 Repay half of the 8% bank loan.
- 3 Sell \$20 000 non-current assets, saving \$3 000 in depreciation.
- 4 Convert \$25 000 of the 8% bank loan into a bank overdraft at 12% interest per annum.

REQUIRED

(c) Complete the following table, by placing a tick (✓) in the appropriate box, to show the effect on the profit for the year and the capital employed.

The first item has been completed as an example.

Proposals	Profit for the year			Capital employed		
	increase	decrease	no effect	increase	decrease	no effect
1			✓	✓		
2						
3						
4						

[6]

Lai Yee is also considering improving her profit for the year by:

- 1 revaluing her business premises to the market value of \$120 000 (cost \$100 000)
- 2 removing the provision for doubtful debts.

REQUIRED

(d) Name which accounting concept would not be complied with if Lai Yee implemented her proposals.

Proposal 1

Proposal 2 [2]

[Total: 22]

5 Nikolas is a manufacturer. The following balances were extracted from his books on 31 July 2014.

	\$
Capital	80 000
Drawings	20 000
Machinery (cost)	125 000
Office fixtures (cost)	55 000
Provisions for depreciation:	
Machinery	75 000
Office fixtures	16 500
Bank	27 700 Dr
Purchases of raw materials	132 500
Inventory at 1 August 2013:	
Raw materials	15 000
Work in progress	31 400
Finished goods	40 000
Revenue	505 000
Royalties	15 000
Indirect factory expenses	12 750
Factory wages	90 800
Insurance	6 200
Rent	11 000
Production managers' salaries	38 250
Office wages and salaries	56 000
Selling expenses	19 600
Distribution costs	31 500
Sundry office expenses	19 800
8% Loan (repayable 31 May 2024)	60 000
Loan interest paid	3 500
Provision for doubtful debts	1 500
Trade receivables	58 000
Trade payables	71 000

Additional information at 31 July 2014

1 Inventory was valued as follows:

	\$
Raw materials	17 500
Work in progress	26 000
Finished goods	42 500

2 Sundry office expenses prepaid \$1400.

3 Insurance included a payment of \$4800 for the year ended 31 October 2014.

4 Insurance and rent are to be apportioned 80% to the factory and 20% to the office.

5 Depreciation is to be charged as follows:

(i) machinery at 20% per annum using the diminishing (reducing) balance method

(ii) office fixtures at 10% using the straight-line method.

6 Nikolas took \$7500 of finished goods for his own use.

7 A debt of \$3000 was considered irrecoverable. A provision for doubtful debts is to be maintained at 4%.

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.....[13]
[Total: 40]

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