

CANDIDATE
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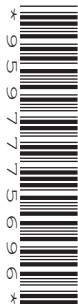
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CENTRE
NUMBER

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CANDIDATE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 2019

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 Filton is a retailer of electrical goods. His financial year ends on 30 September. The following information was available from his books.

Balances on 1 October 2018

	\$
Stationery account	350 Debit
Rent receivable account	200 Debit (for one month's rent receivable accrued)

Stationery purchases on credit from Walker

	\$
23 December 2018	1200
14 June 2019	600

Information from the bank account for the year ended 30 September 2019

Receipts

		\$
3 October 2018	Four months' rent receivable	800
5 February 2019	Four months' rent receivable	800
6 July 2019	Three months' rent receivable	600

Additional information

On 30 September 2019 Filton's stationery was valued at \$450. Two months' rent was owed to him.

REQUIRED

- (a) Prepare the following ledger accounts for the year ended 30 September 2019. Make the appropriate transfers to the income statement. Balance the accounts and bring down the balances on 1 October 2019.

(i)

Stationery account

Date	Details	\$	Date	Details	\$

[4]

(ii)

Rent receivable account

Date	Details	\$	Date	Details	\$

[4]

(b) Name the subdivision of the ledger that would contain the rent receivable account.

..... [1]

(c) State the section of the statement of financial position on 30 September 2019 in which the balance of the rent receivable account will appear.

..... [1]

During September 2019 Filton made some other transactions.

REQUIRED

(d) Complete the following table by naming the business document and the book of prime (original) entry used by Filton for each transaction. The first item has been completed as an example.

Transaction	Business document	Book of prime (original) entry
Sold goods on credit to Yan.	<i>Sales invoice</i>	<i>Sales journal</i>
Paid wages by cheque.		
Goods sold on credit to Yan were returned.		
Purchased goods by cash.		
Sold a motor vehicle on credit.		
Purchased goods on credit from Mary.		

[10]

[Total: 20]
[Turn over

- 2 Rod’s financial year ends on 31 December. On 1 January 2020 Rod will purchase a new delivery vehicle for his business. The details are as follows:

Cost	\$12 000
Estimated economic life	3 years
Estimated residual value	\$1 500

Rod is undecided whether to charge depreciation on the new delivery vehicle by using the straight-line method or diminishing (reducing) balance method. If he decided to use the diminishing (reducing) balance method this would be at a rate of 50% per annum.

REQUIRED

- (a) Define the term ‘depreciation’.

.....

.....

.....

..... [2]

- (b) Calculate the depreciation which would be charged on the new delivery vehicle for **each** of the years 2020, 2021 and 2022 using the straight-line method and diminishing (reducing) balance method.

Insert your answers in the table provided.
Use the space provided on the next page to show your workings.

Year	Straight-line method \$	Diminishing (reducing) balance method \$
2020		
2021		
2022		

Workings

[4]

Rod has estimated the following to help him decide which method of depreciation he should use for the delivery vehicle.

Year	Market value of delivery vehicle \$	Annual maintenance costs \$
2020	6000	0
2021	3500	3000
2022	2000	4500

REQUIRED

(c) Explain **one** advantage of using the straight-line method to depreciate the delivery vehicle.

.....

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..... [2]

(d) Explain **one** advantage of using the diminishing (reducing) balance method to depreciate the delivery vehicle.

.....

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.....

..... [2]

Rod has been advised by a friend that he could use the revaluation method to depreciate the delivery vehicle.

REQUIRED

(e) Explain how the annual depreciation would be calculated using the revaluation method.

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.....

..... [2]

3 The Primrose Garden Store has two departments: plants and tools. The following information is available for the year ended 30 September 2019.

		\$
Revenue	plants	252 000
	tools	130 000
Wages	plants	38 000
	tools	17 000
Direct expenses		5 730

Additional information

- 1 The mark-up on plants is 40%.
- 2 The profit margin on tools is 20%.
- 3 Direct expenses are apportioned to departments on the basis of revenue.

REQUIRED

(a) Calculate the cost of sales for:

(i) plants

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.....
..... [2]

(ii) tools

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.....
.....
..... [2]

(b) Prepare the departmental trading account showing the profit or loss of each department.

Primrose Garden Store
Departmental Trading Account for the year ended 30 September 2019

	Plants		Tools	
	\$	\$	\$	\$

[8]

The following were the summarised wage details for September 2019.

	\$	
Total gross wages		5400
Total deductions		
income tax		950
voluntary contributions		510

Wages were paid to the staff in cash.

On 9 October 2019 the \$950 income tax deducted from wages was paid to the tax authorities by cheque.

REQUIRED

(c) State **three** examples of voluntary deductions made from wages.

- 1
- 2
- 3 [3]

(d) Prepare the following ledger accounts showing the entries for September 2019. It is not necessary to total or balance the accounts.

(i)

Wages account

Date	Details	\$	Date	Details	\$

[3]

(ii)

Income tax account

Date	Details	\$	Date	Details	\$

[2]

[Total: 20]

- 4 Indu is in business buying and selling goods on credit.

The following information is available.

	\$
At 1 October 2018	
Inventory	35 000
For the year ended 30 September 2019	
Revenue	400 000
Expenses	52 000
At 30 September 2019	
Inventory	68 000
Owner's capital	150 000
5% bank loan – repayable 2025	50 000

Mark-up was 25%.

REQUIRED

- (a) Calculate the following for the year ended 30 September 2019.
Comparative figures for the year ended 30 September 2018 are shown in the last column.

	Workings	Answer	Year ended 30 September 2018
Cost of sales			\$270 000
Purchases			\$260 000
Percentage of gross profit to revenue (gross profit margin)			25%
Percentage of profit for the year to revenue (profit margin)			10%
Return on capital employed (ROCE)			18%

[10]

(b) Suggest **four** possible reasons for the change in the profitability ratios of the business over the two years.

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[4]

Indu wishes to increase her profit for the year and has made some proposals. A friend has advised that each proposal may not comply with an accounting principle or concept.

REQUIRED

(c) Complete the table by placing a tick (✓) to indicate the effect on the profit for the year of **each** proposal. Name the accounting principle or concept **not** being applied. The first one has been completed as an example.

Proposal	Effect on profit for the year			Accounting principle or concept not applied
	Increase	Decrease	No effect	
Value closing inventory at cost price plus mark-up.	✓			<i>Historic cost</i>
Remove provision for doubtful debts from financial statements.				
Place a value on the satisfaction and loyalty of customers.				
Make no adjustment for expenses prepaid at year end.				

[6]

[Total: 20]

PLEASE TURN OVER

5 Feng is a sole trader. The following balances were extracted from the books on 30 September 2019.

	\$	
Non-current assets (at cost)		
Land and buildings	170 000	
Motor vehicles	30 000	
Fixtures and fittings	7 000	
Provisions for depreciation at 1 October 2018		
Land and buildings	18 600	
Motor vehicles	10 000	
Fixtures and fittings	1 400	
Disposal account	8 500	Credit
Revenue	326 000	
Purchases	135 000	
Returns inwards	4 300	
Carriage of goods	9 000	
Wages and salaries	90 000	
Motor vehicle expenses	11 250	
Insurance	2 700	
Rent receivable	14 500	
6% Bank loan (repayable 30 May 2022)	40 000	
Bank interest paid	2 400	
Capital	160 000	
Drawings	25 000	
Inventory at 1 October 2018	30 000	
Electricity and water	6 050	
Marketing expenses	17 300	
General expenses	14 000	
Bank	27 450	Debit
Trade payables	36 550	
Trade receivables	35 000	
Provision for doubtful debts	900	

Additional information at 30 September 2019

- 1 On 15 August 2019 goods had been purchased on credit for \$1950. The transaction had **not** been recorded in the books.
- 2 Carriage of goods included \$2700 for carriage on purchases.
- 3 Inventory was valued at \$35 550.
- 4 Rent receivable, \$1500, was due.

- 5 The insurance included an annual payment of \$800 made on 1 January 2019.
- 6 \$750 was owing for water.
- 7 A new motor vehicle costing \$16 000 was purchased on 19 September 2019. Payment was made by cheque. No entries had been made in the books.
- 8 Depreciation is to be charged on all non-current assets owned at the end of the year as follows.
 - (i) Land costing \$60 000 is not depreciated. The buildings are depreciated at 2% per annum on cost.
 - (ii) Motor vehicles are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.
 - (iii) Fixtures and fittings are depreciated at the rate of 10% per annum on cost, using the straight-line method.
- 9 Trade receivables of \$7000 are irrecoverable. The provision for doubtful debts is to be maintained at 5% on the remaining trade receivables.

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