



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

CANDIDATE  
NAME

CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**PRINCIPLES OF ACCOUNTS**

**7110/02**

Paper 2

**October/November 2008**

**2 hours**

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.  
You may use a soft pencil for any diagrams or graphs.  
Do not use staples, paper clips, highlighters, glue or correction fluid.  
**DO NOT WRITE IN ANY BARCODES.**

Answer **all** questions.

Question **5** should be answered on pages **18** and **19** of the answer booklet **or** on multi-column accounting paper. If you use multi-column accounting paper, attach your answer to Question **5** to this booklet.  
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.

For Examiner's Use	
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>Total</b>	

This document consists of **14** printed pages, **2** lined pages and **4** blank pages.





(b) State **two** uses of a trial balance.

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

(c) State and explain **three** errors which do not affect a trial balance.

1 ..... [2]  
2 ..... [2]  
3 ..... [2]

On investigation Jason identified the following errors in his books.

- 1 \$3000 debited to plant and equipment should have been recorded as purchases.
- 2 A payment to creditors of \$1000 in cash had not been recorded.

**REQUIRED**

(d) Make journal entries to record the correction of the errors. Narratives are **not** required.

	Dr	Cr
.....	\$	\$
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[4]

Jason Moore's capital account at 31 October 2008 was as follows:

Capital account

		Dr \$	Cr \$	Balance \$
2007 Nov 1	Balance b/d			16 550
2008 Oct 31	Profit and loss		10 880	27 430
31	Drawings	8 000		19 430

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Use

- (e) (i) Identify the above format of ledger accounts and state the benefit of this format compared with 'T' accounts.

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

- (ii) Explain why the **final** balance in the account above differs from the capital account balance in the trial balance.

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

**[Total: 19]**

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**Question 2 is on the next page**

2 Tina West, a trader, uses books of prime entry. She does not operate a full double entry system. The following information is extracted from her business records for the year ended 31 October 2008:

	\$
Debtors' control account balance 1 November 2007	33 200
Debtors' control account balance 31 October 2008	48 600
Receipts from debtors	135 000
Receipts from cash sales	56 000
Bad debt written off	5 500
Discount allowed	7 200

**REQUIRED**

(a) Calculate the total sales for the year ended 31 October 2008. Show **all** workings.

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..... [7]

Tina West has a gross profit to sales ratio of 40 % and net profit to sales ratio of 5 %.

(b) Calculate Tina West's gross profit and net profit.

Gross profit .....

.....

Net profit .....

..... [2]

Tina West employs two part-time staff. Each works 50 weeks a year. One is employed for 25 hours each week at \$6 per hour. The other works 30 hours each week at \$8 per hour.

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Use

(c) (i) Calculate the total wages Tina West pays the part-time staff during the year.

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.....  
..... [3]

(ii) State **one** additional payroll cost Tina West would incur.

..... [1]

Both employees have asked for a 10 % increase in pay. Tina can use the information in her final accounts when considering this request.

(d) Explain **three** different ways in which the final accounts can help Tina decide about the pay rise.

1 .....  
.....  
2 .....  
.....  
3 .....  
..... [6]

[Total: 19]

3 The treasurer of Avalon Social Club did not keep proper accounting records. The following information was available at 31 October 2008:

1 Subscriptions paid in advance by members at 1 November 2007 amounted to \$210. The balance of subscriptions in arrears was \$130.

2 Receipts during the year ended 31 October 2008:

	\$
Subscriptions - for the year ended 31 October 2007	130 (in arrears)
- for the year ended 31 October 2008	1490
- for the year ended 31 October 2009	90 (in advance)
Sale of refreshments	4970

3 Payments during the year ended 31 October 2008:

	\$
Purchase of refreshments	3630
Rent and rates	1400
Insurance	300
Sundry expenses	1300

Additional information:

	1 November 2007	31 October 2008
	\$	\$
Stock of refreshments	340	290
Balance at bank	740 Dr	790 Dr

All receipts and payments were made through the bank account.

**REQUIRED**

(a) Calculate the accumulated fund at 1 November 2007.

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..... [2]



(b) Prepare the subscriptions account for the year ended 31 October 2008.

*For  
Examiner's  
Use*

Avalon Social Club  
Subscriptions account

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..... [5]

(c) Calculate the gross profit made on the sale of refreshments.

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..... [2]

(d) Prepare the income and expenditure account for the year ended 31 October 2008.

Avalon Social Club  
Income and Expenditure Account for the year ended 31 October 2008

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..... [4]

(e) Explain how the matching/accruals concept should be used in calculating subscriptions for the year.

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..... [4]

**[Total: 17]**

*For  
Examiner's  
Use*

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**Question 4 is on the next page**

4 Agrippa Ltd had the following balances in its accounts **after** the calculation of net profit for the year ended 31 October 2008:

	\$
Land and buildings at cost	100 000
Plant and equipment at cost	80 000
Provision for depreciation of plant and equipment	40 000
Stock	14 400
Debtors	10 000
Cash at bank (Dr)	5 000
Creditors	15 000
Called up share capital:	
5% \$1 Preference shares	30 000
\$1 Ordinary shares	40 000
8% Debenture loan	20 000
General reserves	8 000
Profit and loss account for the year ended 1 November 2007	50 000
Net profit for the year ended 31 October 2008	7 000

Additional information:

- 1 The directors have decided to transfer \$20 000 to the general reserves.
- 2 The directors agreed to pay the preference share dividend for the year. They also declared a final dividend of 2½% on ordinary shares. An interim dividend of 1½% on ordinary shares had been paid in April 2008.

**REQUIRED**

(a) Prepare the appropriation account for Agrippa Ltd for the year ended 31 October 2008.

Agrippa Ltd  
Appropriation Account for the year ended 31 October 2008

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[7]

(b) Prepare the balance sheet extract for the capital and reserves of Agrippa Ltd as at 31 October 2008.

For  
Examiner's  
Use

Agrippa Ltd  
Balance Sheet (extract) at 31 October 2008

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..... [4]

(c) Explain the difference between authorised and called-up share capital.

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..... [2]

(d) Explain **one** difference between ordinary and preference shares.

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

(e) Explain **one** difference between preference shares and debentures.

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

A director has asked the company's accountant to value the closing stock in the final accounts at market value of \$20 000 instead of cost price, \$14 400.

*For  
Examiner's  
Use*

**REQUIRED**

(f) Explain why the accountant cannot ethically do this.

.....  
.....  
.....  
..... [4]

Larger companies prepare their published accounts in accordance with International Accounting Standards (IASs).

**REQUIRED**

(g) Explain **two** reasons why International Accounting Standards are used.

1 .....  
.....  
2 .....  
..... [4]

**[Total: 25]**

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**Question 5 is on the next page**

**Answer Question 5 in this booklet or on separate sheets of paper.**For  
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Use

- 5 Samma Rashid is a manufacturer. The following balances were extracted from the books on 31 October 2008:

	\$
Stock at 1 November 2007	
Raw materials	26 700
Work in progress	7 900
Finished goods	2 450
Purchases of raw materials	213 200
Purchases of finished goods	15 800
Purchases returns of finished goods	900
Sales	525 300
Discounts received	5 100
Direct factory wages	145 300
Factory manager's salary	14 800
Indirect factory expenses	23 200
Office salaries	36 200
Office expenses	18 600
Distribution costs	23 400
Factory plant and machinery at cost	80 000
Office equipment at cost	24 000
Provision for depreciation of factory plant and machinery	36 000
Provision for depreciation of office equipment	15 360
Debtors	44 250
Provision for doubtful debts	800
Creditors	19 600
Drawings	11 600
Bank	3 600 Cr
Capital	80 740

Additional information:

- 1 Stock at 31 October 2008 was valued as follows:

	\$
Raw materials	30 640
Work in progress	8 200
Finished goods	2 150

- 2 At 31 October 2008:

Direct factory wages, \$12 100, were accrued.  
Distribution costs, \$1860, were prepaid.

- 3 Depreciation is to be charged on factory plant and machinery at 25 % per annum using the straight line method. The residual value of plant and machinery is estimated at \$8000.
- 4 Depreciation is to be charged on office equipment at 40 % per annum using the diminishing (reducing) balance method.

No purchases or sales of fixed assets took place within the year.



- 5 A cheque for \$4800 was received from a debtor on 31 October 2008 but has been omitted, in error, from the above balances. This is to be entered in the books.
- 6 The provision for doubtful debts is to be maintained at 2% of debtors.

For  
Examiner's  
Use

**REQUIRED**

- (a) Prepare the manufacturing account for the year ended 31 October 2008.  
Show clearly cost of raw materials consumed, prime cost and cost of production. [11]
  
  - (b) Prepare the trading and profit and loss accounts for the year ended  
31 October 2008. [14]
  
  - (c) Prepare the balance sheet at 31 October 2008. [15]
- [Total: 40]**

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