UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 **May/June 2010**

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 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.
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	
1	
2	
3	
4	
5	
Total	

This document consists of **12** printed pages, **5** lined pages and **3** blank pages.

DC (SM) 19653/3
© UCLES 2010

UNIVERSITY of CAMBRIDGE International Examinations

WWW.XTREMEPAPERS.NET

For Examiner's Use

1 Rahman is a debtor in the books of Goldy. On 1 April 2010 the balance on the account of Rahman was $300.

The following transactions related to the account of Rahman for the month of April 2010.

April	6	Sold goods to Rahman, list price $500; allowed 20% trade discount.
	12	Rahman returned goods bought on 6 April, list price $150.
	18	Sold goods to Rahman, list price $200; allowed 15% trade discount.
	30	Rahman paid the balance on his account on 1 April by cheque and was allowed 3% cash discount.

REQUIRED

(a) Prepare the account of Rahman in the books of Goldy for the month of April 2010. Balance the account and bring down the balance on 1 May 2010.

Rahman account

.....

.....

.....

.....

.....

.....

.....

..... [7]

(b) **(i)** State **two** reasons why trade discount was given to Rahman.

1 .....

.....

2 .....

..... [2]

(ii) Name the book of prime entry in which Goldy will record the transaction on 12 April.

..... [1]

(iii) Name the document which would be issued by Goldy for the returned goods on 12 April.

..... [1]

WWW.XTREMEPAPERS.NET

For Examiner's Use

On 20 April, Goldy received the following bank statement.

			Dr $	Cr $	Balance $
April	1	Balance b/d			650 Cr
	8	Pacific Traders		1500	2150 Cr
	12	Kwan	730		1420 Cr
	15	Interest	12		1408 Cr
	16	Credit transfer (dividends)		130	1538 Cr

REQUIRED

(c) Update the cash book for Goldy on 20 April. Balance the cash book on that date.

Cash book (bank columns only)					
		$			$
April 1	Balance b/d	650	April 12	Kwan	730
8	Pacific Traders	1500	17	Headland Garage	75
18	Stanton & Co	96			

[4]

(d) Prepare the bank reconciliation statement at 20 April.

Bank reconciliation statement at 20 April 2010

.....

.....

.....

.....

.....

.....

.....

..... [4]

[Total: 19]

WWW.XTREMEPAPERS.NET

For Examiner's Use

2 Sparky Ltd set up business on 1 May 2008 with the following assets:

	$
Property (Land and buildings)	150 000
Computer equipment	40 000
Inventory (stock in trade)	70 000

Sparky Ltd decided on the following policy for depreciation:

1 Land costing $80 000 was not to be depreciated.

2 Buildings are to be depreciated at 2% per annum on cost using the straight line method.

3 Computer equipment is to be depreciated at 25% per annum using the diminishing (reducing) balance method.

REQUIRED

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

(i) .....

(ii) ..... [2]

(b) Explain why Sparky Ltd does **not** depreciate each of the following:

(i) Land

.....

.....

(ii) Inventory (stock in trade)

.....

..... [4]

(c) Explain why depreciation is an application of the matching/accruals principle.

.....

.....

..... [2]

(d) Calculate the depreciation on property (land and buildings) for the year ended 30 April 2009.

.....

..... [1]

WWW.XTREMEPAPERS.NET

On 30 April 2010 Sparky Ltd sold some of the computer equipment for $7000. The computer equipment had cost $12 000 on 1 May 2008. Sparky Ltd charges a full year's depreciation in the year of disposal.

For Examiner's Use

REQUIRED

(e) Prepare the disposal account on 30 April 2010 recording the disposal of the computer equipment.

Disposal account

.....

.....

.....

.....

..... [5]

During the year ended 30 April 2010, Sparky Ltd carried out work on the buildings.

1 Built an extension

2 Redecorated the interior

3 Installed air conditioning

REQUIRED

(f) State whether **each** item, 1 to 3 above, is capital expenditure **or** revenue expenditure.

1 .....

2 .....

3 ..... [3]

[Total: 17]

WWW.XTREMEPAPERS.NET

For Examiner's Use

3 Indira is a computer consultant. She does not keep a full set of double entry accounts but the following information is available for the year ended 31 March 2010.

Summarised Cash Book

	$		$
Balance 1 April 2009	3 500	Purchase of office equipment	5 500
Receipts of consultancy fees	74 000	Wages	23 600
Sale of office equipment	750	Drawings	20 000
		Loan interest and repayments	2 600
		General expenses	12 900
		Rent	9 000
		Balance 31 March 2010	4 650
	78 250		78 250

The sale of office equipment was at net book value.

Additional information:

	1 April 2009 $	31 March 2010 $
Plant and equipment (Office equipment)	16 000	17 500
Trade receivables (debtors) for consultancy fees	14 200	11 000
Non-current liability (6% loan)	10 000	8 000
Other receivables (General expenses prepaid)	100	500
Other payables (Rent accrued)	400	600

REQUIRED

(a) **(i)** Calculate the capital at 1 April 2009.

.....

.....

.....

.....

.....

.....

.....

..... [3]

WWW.XTREMEPAPERS.NET

For Examiner's Use

(ii) Calculate the consultancy fees for the year ended 31 March 2010.

.....

.....

.....

.....

.....

.....[3]

(b) Prepare the income statement (profit and loss account) for the year ended 31 March 2010.

Indira
Income Statement (Profit and Loss Account) for the year ended 31 March 2010

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....[7]

(c) Indira does not keep a full set of double entry accounts. State **two** advantages to Indira of maintaining a full set of double entry accounts.

(i) .....

.....[2]

(ii) .....

.....[2]

WWW.XTREMEPAPERS.NET

Included within the wages in the summarised cash book are payments to the office supervisor.

For Examiner's Use

The office supervisor is paid $1000 per month plus 10 hours overtime per month at $8 per hour.

Statutory deductions will be made at the rate of 15%.

Indira will also have to make a 10% employer's contribution to the government.

REQUIRED

(d) Calculate:

(i) The **net payment** made by Indira to the office supervisor for **one month**.

.....

.....

.....

.....

.....[3]

(ii) The **total cost** to Indira of employing the office supervisor for **one month**.

.....

.....

.....[2]

[Total: 22]

WWW.XTREMEPAPERS.NET

BLANK PAGE

Question 4 is on the next page.

WWW.XTREMEPAPERS.NET

For Examiner's Use

4 Zaynah is in business buying and selling goods on credit. The following balances were extracted from her books on 30 April 2010.

	$
Revenue (Sales)	200 000
Cost of sales	130 000
Expenses	65 000
Inventory (stock) 1 May 2009	20 000
Inventory (stock) 30 April 2010	60 000
Trade receivables (debtors)	16 000
Trade payables (creditors)	35 000
Loans repayable within 12 months (Bank overdraft)	5 000
Closing capital	100 000

REQUIRED

(a) Calculate, to **one** decimal place, the following ratios for the year ended 30 April 2010. Clearly show **all** workings.

(i) Gross profit to revenue (sales) percentage

.....

.....

.....

.....

..... [3]

(ii) Working capital ratio (current ratio)

.....

.....

.....

.....

..... [3]

(iii) Quick ratio (acid test)

.....

.....

.....

..... [4]

WWW.XTREMEPAPERS.NET

For Examiner's Use

(iv) Profit for the year (net profit) to capital percentage

.....

.....

.....

.....

.....[4]

(b) Comment on the following ratios at 30 April 2010:

(i) Quick ratio (acid test)

.....

.....

.....[2]

(ii) Profit for the year (net profit) to capital percentage.

.....

.....

.....[2]

In the previous year, ended 30 April 2009, the business of Zaynah achieved the following ratios:

Gross profit to revenue (sales) percentage	50%
Working capital ratio (current ratio)	1.7:1

REQUIRED

(c) Suggest **one** possible reason for the change over the year ended 30 April 2010 in the:

(i) gross profit to sales percentage;

.....

.....

.....[2]

(ii) working capital ratio (current ratio).

.....

.....

.....[2]

[Total: 22]

WWW.XTREMEPAPERS.NET

Answer Question 5 on the following pages.

For Examiner's Use

5 SGC Ltd is a trading company. The following balances were extracted from the books on 30 April 2010.

	$
Inventory (stock) at 1 May 2009	48 500
Raw materials (Purchases)	178 000
Raw materials (Purchase) returns	9 000
Carriage inwards	16 500
Revenue (Sales)	370 000
Office expenses	19 750
Office salaries	59 300
Property (Land and buildings) at cost	250 000
Computer equipment (cost)	80 000
Office fixtures and fittings (cost)	40 000
Provision for depreciation of computer equipment	28 000
Provision for depreciation of office fixtures and fittings	15 000
Other operating (Sundry) expenses	9 800
Advertising and marketing costs	24 000
Finance costs (Debenture interest) paid	3 000
Authorised and issued share capital	
100 000 $0.50 ordinary shares	50 000
200 000 $1.00 8% preference shares	200 000
Non-current liabilities (12% debentures repayable 31 December 2020)	50 000
General reserve	40 000
Profit and loss account 1 May 2009	1 300
Trade receivables (debtors)	42 000
Provision for doubtful debts	1 500
Trade payables (creditors)	35 500
Cash (Bank)	3 450 Dr

Additional information:

1 Inventory (stock) at 30 April 2010 was $57 000.

2 At 30 April 2010

Office expenses, $450, were prepaid.

Office salaries, $1800, were accrued.

3 Depreciation is to be charged on:

computer equipment at 25% per annum using the diminishing (reducing) balance method;

office fixtures and fittings using the straight-line method at 20% on cost.

4 The provision for doubtful debts is to be maintained at 5% of trade receivables (debtors).

5 On 30 April 2010 the directors of SGC Ltd

Transferred $20 000 to the general reserve.

Paid the full dividend on the preference shares.

Paid an ordinary share dividend of $0.10 per share.

WWW.XTREMEPAPERS.NET

REQUIRED

For Examiner's Use

(a) Prepare the income statement (trading and profit and loss account and the appropriation account) of SGC Ltd for the year ended 30 April 2010. [22]

(b) Prepare the balance sheet of SGC Ltd at 30 April 2010. [18]

[Total: 40]

WWW.XTREMEPAPERS.NET

For Examiner's Use

WWW.XTREMEPAPERS.NET

For Examiner's Use

WWW.XTREMEPAPERS.NET

For Examiner's Use

WWW.XTREMEPAPERS.NET

For Examiner's Use

WWW.XTREMEPAPERS.NET

For Examiner's Use

WWW.XTREMEPAPERS.NET

BLANK PAGE

WWW.XTREMEPAPERS.NET

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2010

WWW.XTREMEPAPERS.NET