UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

PRINCIPLES OF ACCOUNTS **7110/23**

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.

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1	
2	
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Total	

This document consists of **12** printed pages, **6** lined pages and **2** blank pages.

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1 Leung commenced business on 1 April 2010 with inventory (stock) $500 and bank $6000. Leung also has a bank loan of $3500 which is repayable in full on 31 March 2013.

REQUIRED

(a) Calculate on 1 April 2010, the

(i) owner's capital .....

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..... [1]

(ii) capital employed .....

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..... [1]

In the first days of trading, Leung completed the following transactions.

(i) Paid rent, $200, by cheque.

(ii) Purchased goods, $1500, on credit from Ying.

(iii) Sold goods costing $1000, for $1800, on credit to Tung.

(iv) Purchased office equipment, $4000, paying by cheque.

(v) Paid his account to Ying of $1500 and was allowed 4% cash discount.

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REQUIRED

(b) Complete the table below. The first item has been completed as an example.

Item	Book of prime entry	Effect on current assets	Effect on current liabilities	Effect on capital
(i)	*Cash book*	*–$200*	*No effect*	*–$200*
(ii)				
(iii)				
(iv)				
(v)				

[16]

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On 31 May 2010, Leung extracted the following balances from his books.

	$
Gross profit	6 650
Inventory (stock)	4 600
Bank loan	3 500
Trade Receivables (debtors)	1 200
Trade Payables (creditors)	2 100
Office equipment	4 000
Bank	1 750 Dr
Discount received	150
Rent and expenses	3 850
Capital	?

REQUIRED

(c) Prepare the trial balance at 31 May 2010.

Trial balance of Leung at 31 May 2010

	Dr $	Cr $

.....[10]

[Total: 28]

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2 Tsang is in business buying and selling goods on credit. The following information is available for the month of March 2010.

	$
Revenue (sales)	65 000
Inventory (stock) 1 March	3 400
Trade payables (creditors) 1 March	1 700
Payments to suppliers	47 000
Discount received	300
Inventory (stock) 31 March	2 900
Ordinary goods purchased	47 900
Wages & expenses	2 500

REQUIRED

(a) Prepare the purchase ledger control account showing the balance of trade payables (creditors) at 31 March 2010.

Purchases Ledger Control account

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Included in the expenses are the wages paid to Susan, who works for Tsang. In the month of March, Susan worked 160 hours for which she was paid $5 per hour, and 20 hours overtime, for which she was paid time and a half.

Tax and social security deducted from her pay was $165. Tsang also had to pay $90 for employer's social security contributions. The total tax and social security is to be paid to the tax authorities on 30 April 2010.

REQUIRED

(b) (i) Calculate Susan's **net pay** for the month of March.

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(ii) Calculate for Tsang, the **total cost** of employing Susan for the month of March.

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(c) Prepare for Tsang, the journal entry on 31 March 2010 to record the wages and statutory deductions. A narrative is **not** required.

	Dr $	Cr $

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(d) Prepare the income statement (trading and profit and loss account) for the month of March 2010.

Tsang
Income Statement (Trading and Profit and Loss Account)
for the month ended 31 March 2010

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[Total: 18]

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3 Chan and David were sole traders with the following assets and liabilities on 31 March 2009.

	Chan	David
	$	$
Intangible assets (goodwill)	30 000	–
Non-current (fixed) assets	23 000	10 000
Inventory (stock)	7 000	5 000
Trade receivables (debtors)	3 000	4 000
Trade payables (creditors)	5 000	6 000
Cash (bank)	–	2 000
Loans repayable within 12 months (bank overdraft)	8 000	–
Capital	50 000	15 000

On 1 April 2009 Chan and David formed a partnership, Newstart. They entered into the following agreement:

1 Intangible assets (goodwill) would **not** appear in the books of the new partnership.

2 No interest would be allowed on capital.

3 Interest would be charged on drawings at the rate of 5% of the balance at the end of the year.

4 Salaries would be paid at the rate of: Chan $8000 per annum and David $7000 per annum.

5 Profits and losses would be shared in the ratio Chan and David 2:1.

REQUIRED

(a) Explain the term goodwill and give **one** example.

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(b) State **two** accounting principles (concepts) which supports goodwill not being included in the balance sheet of a business.

(i) .....

(ii) .....[4]

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(c) Calculate the capital of **each** partner, Chan and David, after writing off the goodwill on 1 April 2009.

(i) Chan .....

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(ii) David .....

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(d) Prepare the balance sheet of Newstart at 1 April 2009.

Newstart
Balance Sheet at 1 April 2009

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The following information is available at the end of the first year of trading of Newstart on 31 March 2010.

		$
Profit for the year (net profit)		10 250
Drawings	Chan	15 000
	David	20 000

REQUIRED

(e) Prepare the profit and loss appropriation account for the year ended 31 March 2010.

Newstart
Profit and Loss Appropriation Account for the year ended 31 March 2010

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[Total: 21]

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4 Paula Lim supplied the following information relating to her financial year ended 30 April 2010.

	$
Revenue (sales)	250 000
Inventory (stock) 1 May 2009	10 000
Inventory (stock) 30 April 2010	25 000
Gross profit to sales	40%
Profit for the year (net profit) to sales	8%

REQUIRED

Calculate the following for the year ended 30 April 2010. Show **all** your workings.

(a) Cost of sales

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(b) Raw materials (purchases)

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(c) Expenses

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(d) Rate of inventory (rate of stock) turnover

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[Total: 13]

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Question 5 is on the next page.

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Answer Question 5 on the following pages.

5 Wang Yee is a manufacturer. The following balances were extracted from his books on 31 January 2010.

	$
Inventories (stocks) 1 February 2009	
Raw materials	14 700
Work in progress	23 570
Finished goods	35 000
Purchases of raw materials	75 600
Purchases of finished goods	15 500
Direct factory wages	62 140
Rent	28 000
Factory management salaries	31 500
Office salaries	41 600
Revenue (sales)	342 500
Revenue (sales returns)	1 250
Distribution costs	28 650
Sundry office expenses	9 870
Non-current liability (8% loan – repayable 31 December 2015)	40 000
Finance costs (loan interest) paid	2 400
Property (land and buildings) (cost)	80 000
Plant and machinery (cost)	90 000
Office equipment (cost)	30 000
Provision for depreciation of plant and machinery	32 000
Provision for depreciation of office equipment	12 000
Provision for doubtful debts	1 550
Trade receivables (debtors)	45 000
Trade payables (creditors)	60 700
Cash (bank)	33 030 Cr
Capital	110 000
Drawings	17 000

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Additional information:

1 Inventories (stocks) at 31 January 2010 were valued as follows:

	$
Raw materials	16 250
Work in progress	18 780
Finished goods	32 500

2 At 31 January 2010

Direct factory wages, $1 120, were accrued.
Sundry office expenses, $630, were prepaid.

3 Rent is to be apportioned on the basis of area occupied. Three fifths $\left(\frac{3}{5}\right)$ of the area is occupied by the factory and two fifths $\left(\frac{2}{5}\right)$ by the offices.

4 Depreciation is charged on plant and machinery at 20% per annum using the diminishing (reducing) balance method.

5 Office equipment is depreciated using the straight-line method at 20% on cost.

Office equipment, $24 000, was purchased on 31 July 2006.
Additional office equipment, $6 000, was purchased on 30 September 2009.
No other changes in non-current (fixed) assets occurred in the year ended 31 January 2010.
Depreciation is calculated for the time assets are held in the business.

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

REQUIRED

(a) Prepare the manufacturing account of Wang Yee for the year ended 31 January 2010. Show clearly the cost of raw materials consumed, prime cost and cost of production. [11]

(b) Prepare the income statement (trading and profit and loss accounts) of Wang Yee for the year ended 31 January 2010. [15]

(c) Prepare the balance sheet of Wang Yee at 31 January 2010. [14]

[Total: 40]

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Answer Question 5 on the following pages

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