



Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE
NAME

CENTRE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 2018

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 **20** printed pages.

1 Lohit is a supplier of goods to Asanka. The following entries require recording in the books of Asanka for the month of August 2018.

- August 1 Asanka owed Lohit, \$90
- 9 Lohit supplied goods to Asanka, list price \$80 less 15% discount
- 10 Asanka returned goods, list price \$20, supplied on 9 August
- 15 Asanka paid \$97 by cheque after deducting \$3 discount

REQUIRED

(a) Prepare the account of Lohit in the books of Asanka for August 2018. Balance the account and bring down the balance on 1 September 2018.

Lohit account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
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[5]

(b) Name each of the following:

- (i) type of discount allowed by **Lohit** on 9 August
.....[1]
- (ii) book of prime entry in which **Lohit** would record the transaction on 9 August
.....[1]
- (iii) document that **Lohit** would send to Asanka recording the transaction on 10 August
.....[1]
- (iv) sub-division of **Lohit's** ledger which would contain the account of Asanka
.....[1]
- (v) section of **Lohit's** statement of financial position which would contain the balance on Asanka's account.
.....[1]

The following were recorded in the books of Asanka in the year ended 31 August 2018.

| | Balance 1 September 2017 \$ | Cash book entries for the year ended 31 August 2018 \$ | Balance 1 September 2018 \$ |
|--------------------|-----------------------------------|---|-----------------------------------|
| Rent payable | 150 Debit | 14 000 Paid | 250 Debit |
| Telephone expenses | 60 Debit | 1 500 Paid | 25 Credit |
| Rent receivable | 200 Credit | 1 800 Received | 500 Debit |

REQUIRED

(c) Explain the meaning of the:

(i) \$150 debit balance on the rent payable account on 1 September 2017;

.....
[2]

(ii) \$25 credit balance on the telephone expenses account on 1 September 2018.

.....
[2]

(d) Complete the following table by inserting the values of rent payable, telephone expenses and rent receivable which would appear in the trial balance, income statement and statement of financial position.

The first one has been completed as an example.

| | Trial balance at 31 August 2018 | Income statement for the year ended 31 August 2018 | | Statement of financial position at 31 August 2018 | |
|-----------------------|--|---|--------|--|-------------|
| | | Expenses | Income | Assets | Liabilities |
| | \$ | \$ | \$ | \$ | \$ |
| Rent payable | 14 150 | 13 900 | – | 250 | – |
| Telephone expenses | | | | | |
| Rent receivable | | | | | |

[6]

[Total: 20]

2 Arjit provided the following information for the month of July 2018.

1 Sales ledger control account balances 1 July 2018

| | |
|--------|------|
| | \$ |
| Debit | 4230 |
| Credit | 80 |

2 Transactions for the month ended 31 July 2018

| | |
|-------------------------------------|------|
| | \$ |
| Credit sales | 9200 |
| Cash sales | 3100 |
| Bad debts written off | 450 |
| Discount allowed | 230 |
| Returns inwards | 740 |
| Receipts from credit customers | 8000 |
| Refund to credit customer by cheque | 300 |
| Interest charged on overdue account | 180 |

3 Sales ledger control account balances 1 August 2018

| | |
|--------|-----|
| | \$ |
| Debit | ? |
| Credit | 150 |

REQUIRED

- (a) Prepare the sales ledger control account for the month of July 2018. Balance the account and bring down the balances on 1 August 2018.

Sales ledger control account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
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[9]

(b) State **one** possible reason for the credit balance on the sales ledger control account.

.....[1]

Arjit prepared a trial balance on 31 July 2018. The totals of the trial balance did not agree. He opened a suspense account.

On inspecting his books Arjit found the following errors.

- 1 A purchase of goods from Dipu had been correctly recorded in the purchases journal as \$65. An entry of \$45 had been made in the account of Dipu.
- 2 A cheque received from Arca, \$240, had been recorded in Arca’s account as \$420.
- 3 The total of the discount allowed column in the cash book, \$15, had been credited to the discount allowed account.

REQUIRED

(c) Prepare the journal entries to correct the errors 1 to 3. Narratives are **not** required.

General Journal

| | Debit | Credit |
|--|-------|--------|
| | \$ | \$ |
| | | |
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[6]

(d) Prepare the suspense account showing the original difference in the books.

Suspense account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
| | | | | | |
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[4]

[Total: 20]

3 The following information is available for B Limited at 31 August 2018.

B Limited
Statement of Changes in Equity for the year ended 31 August 2018

| | Ordinary Shares | General Reserve | Retained Earnings | Total |
|---------------------------------|--------------------|--------------------|----------------------|----------------|
| | \$ | \$ | \$ | \$ |
| Balance at 1 September 2017 | 150 000 | 65 000 | 85 000 | 300 000 |
| Profit for the year | | | 75 000 | 75 000 |
| Transfer to general reserve | | 25 000 | (25 000) | – |
| Dividend paid (ordinary shares) | | | (21 000) | (21 000) |
| Balance at 31 August 2018 | <u>150 000</u> | <u>90 000</u> | <u>114 000</u> | <u>354 000</u> |

Other balances at 31 August 2018

| | |
|--------------------------------------|--------|
| | \$ |
| Trade payables | 73 000 |
| 6% Debentures (repayable 2024) | 50 000 |
| Debenture interest owing | 4 800 |
| General expenses owing | 5 300 |
| 5% Bank loan (repayable 31 May 2019) | 40 000 |

Additional information

B Limited had issued 300 000 ordinary shares.

REQUIRED

(a) Explain why the debentures are **not** included in the statement of changes in equity.

.....

.....

.....[2]

(b) Calculate the dividend paid on ordinary shares for the year (in \$ per ordinary share).

.....

.....

.....

.....[2]

(e) Explain **two** differences between ordinary shares and preference shares.

1.....

 [4]

(f) Distinguish between cumulative preference shares and non-cumulative preference shares.

.....

 [2]

(g) Complete the following table by placing a tick (✓) in the correct column to indicate where **each** item would appear in the financial statements. The first one has been completed as an example.

| | Income statement | Statement of changes in equity | Statement of financial position |
|------------------------------|------------------|--------------------------------|---------------------------------|
| Ordinary share dividend paid | | ✓ | |
| Director’s salary | | | |
| Other receivables | | | |

[2]

[Total: 20]

- 4 The following information was available from the books of Linrae.

Totals for the year ended 30 September 2017

| | |
|-----------------------------------|---------|
| | \$ |
| Revenue | 240 000 |
| Cost of sales | 180 000 |
| Expenses (excluding depreciation) | 35 000 |
| Depreciation | 10 000 |
| Balance at 30 September 2017 | |
| Linrae's capital | 100 000 |

REQUIRED

- (a) Calculate the following for the year ended 30 September 2017. Show your answers to **two** decimal places.

| | Workings | Answer |
|---|----------|--------|
| Percentage mark-up | | |
| Percentage profit for the year to revenue (profit margin) | | |
| Return on capital employed (ROCE) | | |

[6]

- 5 Aung and Khin are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2 respectively.

Interest is charged on drawings (excluding partnership salary) at the rate of 5%. A salary of \$9000 per annum is paid to Khin.

The following balances were extracted from the books on 30 September 2018.

| | \$ |
|---|--------------|
| Capital accounts | |
| Aung | 50 000 |
| Khin | 50 000 |
| Current accounts at 1 October 2017 | |
| Aung | 3 000 Debit |
| Khin | 6 000 Credit |
| Drawings | |
| Aung | 9 000 |
| Khin | 14 000 |
| Land and buildings (at cost) | 140 000 |
| Motor vehicles (at cost) | 42 000 |
| Office equipment (at cost) | 64 000 |
| Provisions for depreciation at 1 October 2017 | |
| Land and buildings | 29 600 |
| Motor vehicles | 10 000 |
| Office equipment | 46 000 |
| Provision for doubtful debts | 500 |
| 8% Bank loan (repayable 31 March 2020) | 60 000 |
| Bank interest paid | 3 600 |
| Bank | 5 200 Debit |
| Revenue | 309 000 |
| Purchases | 174 000 |
| Returns inwards | 9 100 |
| Trade payables | 45 200 |
| Trade receivables | 31 000 |
| Inventory at 1 October 2017 | 19 700 |
| Marketing expenses | 25 000 |
| Other operating expenses | 17 250 |
| Wages and salaries | 40 500 |
| Motor vehicle expenses | 9 200 |
| Commission receivable | 12 250 |
| Rent paid | 12 000 |

Additional information at 30 September 2018

- 1 Inventory was valued at \$36 000.
- 2 Marketing expenses prepaid were \$4000.
- 3 Commission receivable of \$1750 was due.
- 4 Depreciation is to be charged on all non-current assets as follows:
 - (i) Buildings at the rate of 4% per annum on cost. The land cost \$80 000 and is not depreciated.
 - (ii) Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
 - (iii) Office equipment at the rate of 10% per annum on cost.
- 5 The salary of Khin was paid and recorded in the wages and salaries account.
- 6 A payment of \$6800 made by cheque to a trade supplier, had not been recorded in the books.
- 7 Trade receivables of \$5000 were irrecoverable. The provision for doubtful debts is to be maintained at 5%.

