



Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE
NAME

CENTRE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/22

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 **21** printed pages and **3** blank pages.

- 1 An inexperienced book-keeper prepared the following trial balance for Alia's business on 31 August 2018. The trial balance did not balance.

Trial Balance at 31 August 2018

	Debit	Credit
	\$	\$
Revenue		19 600
Purchases	9 800	
Inventory at 31 August 2018	730	
Rent receivable	400	
Rent payable	800	
General expenses	230	
Non-current assets (at cost)	18 750	
Provision for depreciation		3 970
Bank overdraft	30	
Motor vehicle expenses		650
Trade receivables	2 990	
Trade payables		1 090
Capital		9 000
	<u>33 730</u>	<u>34 310</u>

Additional information

Inventory at 1 August 2018 was \$870.

REQUIRED**(a)** Prepare the corrected trial balance.

Trial Balance at 31 August 2018

	Debit	Credit
	\$	\$
Revenue		
Purchases		
Inventory		
Rent receivable		
Rent payable		
General expenses		
Non-current assets (at cost)		
Provision for depreciation		
Bank overdraft		
Motor vehicle expenses		
Trade receivables		
Trade payables		
Capital		

[5]

Alia's brother Roshan also runs a business.

Roshan provided the following information for the month of September 2018.

- September 1 Balances Computer maintenance expenses account \$720
 KK Computers account \$450 Credit
- 8 Roshan paid \$425 to KK Computers by cheque in full settlement of the balance owing on 1 September 2018.
- 19 Roshan received an invoice for \$750 from KK Computers for computer maintenance.
- 30 Roshan prepared the financial statements for the year. It was estimated that \$70 of computer maintenance expenses were prepaid.

REQUIRED

- (b) Prepare the following accounts for the month of September 2018. Complete the appropriate transfer. Balance the accounts and bring down the balances on 1 October 2018.

Computer maintenance expenses account

Date	Details	\$	Date	Details	\$

KK Computers account

Date	Details	\$	Date	Details	\$

[9]

On 15 October 2018 Roshan sold a computer (non-current asset) to Jones on a 20-day credit for \$200. The computer had cost Roshan \$250 and had accumulated depreciation of \$70.

On 30 October Jones still owed \$200.

REQUIRED

(c) (i) Name the book of prime (original) entry in which Roshan would record the sale.

.....[1]

(ii) Name the document that Roshan sent to Jones on 15 October.

.....[1]

(iii) Name the document that Roshan sent to Jones on 30 October.

.....[1]

On 2 November Jones paid Roshan \$195 in full settlement of the debt for the computer.

REQUIRED

(d) (i) Name the type of discount given to Jones.

.....[1]

(ii) Calculate the amount of the profit or loss that Roshan made on the sale of the computer.

.....

.....[2]

[Total: 20]

- 2 East Town Decorators have two separate departments, paints and wallpapers. The following information is available, for the 3-month period ended 30 September 2018.

		\$
Revenue	Paints	12000
	Wallpapers	8000
Purchases	Paints	2000
	Wallpapers	2500
Inventory 1 July 2018	Paints	2300
	Wallpapers	1800
Inventory 30 September 2018	Paints	3100
	Wallpapers	1600
Direct wages		6000
Direct expenses		4800

On inspection of the ledger the following errors were found.

- 1 The purchase of paint from P P Limited, \$5100, had been posted to the ledgers as \$1500.
- 2 Direct wages, \$600, paid in cash had been credited to the direct wages account and debited to the cash account.
- 3 Direct expenses included the purchase of an office computer, \$800.

REQUIRED

- (a) Name the type of error in 1 to 3.

1.....

2.....

3.....

[3]

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

General Journal

	Debit	Credit
	\$	\$

[6]

The following additional information is available **after** the correction of all errors.

- 1 \$4000 of direct wages relate to the paints department.
- 2 Direct expenses are apportioned to the paints department and wallpapers department in proportion to sales made.

REQUIRED

- (c) Prepare the departmental trading account for the three months ended 30 September 2018 **after the correction of all errors**. Show the profit or loss for each department.

East Town Decorators
Departmental Trading Account for the 3 months ended 30 September 2018

	Paints department		Wallpapers department	
	\$	\$	\$	\$

[11]

[Total: 20]

3 Lodini and Mathy were in partnership sharing profits and losses equally. They provided the following information on 1 August 2017.

	\$
Capital	
Lodini	25 000
Mathy	15 000

On 1 August 2017 Lodini and Mathy agreed to admit Nanda as a partner. On that date Lodini and Mathy valued their goodwill at \$30 000.
The new partnership agreement stated:

- 1 Goodwill would **not** be retained in the books of the new partnership.
- 2 Nanda would pay \$10 000 as capital into the business bank account on 1 August 2017.
- 3 Lodini would transfer \$8000 of her capital into a 5% loan account to the partnership on 1 August 2017.
- 4 Profits and losses would be shared Lodini two-fifths, Mathy two-fifths and Nanda one-fifth.
- 5 Interest would be allowed on partners' capital at 5% per annum.
- 6 Interest would be charged at 10% on partners' drawings.
- 7 There would be no salaries paid to the partners.

REQUIRED

(a) State **two** possible **disadvantages** to Lodini and Mathy of admitting Nanda as a partner.

1.....
.....
2.....
.....

[2]

(b) Prepare, on the next page, the capital accounts on 1 August 2017 after the admission of Nanda. Balance the accounts and bring down the balances.

[8]

Capital accounts

Date	Details	Lodini	Mathy	Nanda	Date	Details	Lodini	Mathy	Nanda
		\$	\$	\$			\$	\$	\$

The partners have been advised that they must comply with the accounting entity principle.

REQUIRED

(d) Explain the accounting entity principle.

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

[Total: 20]

4 Hema is a trader, buying and selling goods on credit. The following information is available.

Balances at 1 September 2018

	\$
Inventory	20 000
Trade receivables	50 000
Trade payables	12 000
Bank overdraft	25 000
Other receivables	4 000

REQUIRED

(a) Calculate the following at 1 September 2018 to **two** decimal places.

	Workings	Answer
Working capital ratio (current ratio)		
Quick ratio (acid test ratio)		

[4]

(b) Comment on the liquidity of Hema’s business on 1 September 2018.

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[4]

During the month of September 2018 the summarised transactions were:

	\$
Credit purchases	35 000
Credit sales	60 000
Received from trade receivables by cheque	80 000
Paid to trade payables by cheque	27 000
Paid for expenses by cheque	15 000

Hema marks up all goods by 50% for resale.

REQUIRED

(c) Calculate the following balances at 30 September 2018.

	Workings	Answer \$
Inventory		
Trade receivables		
Trade payables		
Bank		

[9]

- (d) State the effect of **each** of the following on the working capital.
The first item has been completed as an example.

	Working capital \$
Sold non-current assets for cash \$1200.	+ 1200
Trade receivables paid \$485 in full settlement of debts of \$500.	
Converted \$2500 of the bank overdraft to a five year bank loan.	
Hema brought additional capital into the business: motor van \$900 and inventory \$600.	

[3]

[Total: 20]

PLEASE TURN OVER

5 Shobi is a sole trader. The following balances were extracted from the books on 30 September 2018.

	\$
10-year leasehold premises (at cost)	120 000
Motor vehicles (at cost)	40 000
Fixtures and fittings (at cost)	19 000
Provisions for depreciation at 1 October 2017:	
10-year leasehold premises	72 000
Motor vehicles	10 000
Fixtures and fittings	7 600
Revenue	265 000
Purchases	135 000
Returns outwards	8 200
Carriage inwards	3 100
Wages and salaries	41 000
Motor vehicle expenses	6 800
Rent payable	15 000
Rent receivable	8 500
Capital	40 000
Drawings	11 900
6% Bank loan (repayable 2020)	50 000
Bank interest paid	3 000
Inventory at 1 October 2017	26 000
Heat, light and power	5 050
Advertising	9 000
General expenses	17 700
Disposal	1 800 Credit
Bank	13 350 Debit
Trade payables	23 050
Trade receivables	23 250
Provision for doubtful debts	3 000

Additional information at 30 September 2018

- 1 Inventory was valued at \$19 500.
- 2 Shobi had taken \$4700 goods for his own use. No entries had been recorded in the books.
- 3 The rent payable included a payment of \$9000 for the six months ended 30 November 2018.
- 4 General expenses accrued were \$2600 and wages and salaries accrued were \$1700.
- 5 Rent receivable of \$150 was outstanding.
- 6 On 26 September 2018 a motor vehicle costing \$12000 was purchased by cheque. No entries had been recorded in the books.
- 7 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - (i) an appropriate amount for the 10-year leasehold premises
 - (ii) motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
 - (iii) fixtures and fittings at the rate of 10% per annum on cost.
- 8 Trade receivables of \$750 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

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