

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Ordinary Level

| | CANDIDATE NAME | | |
|---------|-------------------------|----------------------------|----------------------------------|
| | CENTRE NUMBER | | CANDIDATE NUMBER |
| * 2 4 4 | PRINCIPLES O Paper 2 | OF ACCOUNTS | 7110/02 October/November 2010 |
| 79450 | | wer on the Question Paper. | 2 hours |
| ° | | | |

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 | | For Examiner's Use | |
|--|-------|--------------------|--|
| question. | 1 | | |
| | 2 | | |
| | 3 | | |
| | 4 | | |
| | 5 | | |
| | Total | | |

This document consists of 20 printed pages.



1 The following balances were taken from the books of Dilshan on 1 September 2010:

| | \$ |
|-----------|--------|
| Insurance | 280 Dr |
| Gul & Co | 450 Dr |

The following transactions took place during September 2010:

- September 1 Dilshan paid, by cheque, the annual insurance premium, \$360, for the year to 31 August 2011.
- September 15 Dilshan sold, on credit to Gul and Co, goods with a list price of \$1600 and allowed 15% trade discount.

September 20 Gul & Co paid the balance at 1 September 2010 less 2% cash discount.

Dilshan prepared his financial statements (final accounts) on 30 September 2010.

REQUIRED

(a) (i) Name an alternative format to 'T' accounts.

[1]

(ii) State **one** benefit of this format compared with 'T' accounts.

[2]

(b) Prepare the following ledger accounts for the month of September 2010. Make any necessary transfers to the income statement (profit and loss account). Balance the Examiner's accounts and bring down the balance.

Insurance account Gul & Co account [10] For

Use

(c) State in which of Dilshan's ledgers the following accounts would appear.

| Account | Ledger |
|-----------|--------|
| Insurance | |
| Gul & Co | |

[2]

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(d) (i) Name the document which was sent to Gul & Co recording the transaction of 15 September 2010.[1] (ii) Name the book of prime (original) entry in which Dilshan recorded this transaction.[1] (e) (i) Explain why Dilshan did not include all of the insurance paid on 1 September 2010 in his income statement (profit and loss account) for the year ended 30 September 2010. [2] (ii) State the accounting principle that Dilshan applied.[1] **2** Jayani prepared a trial balance at 30 September 2010, which balanced.

A draft income statement (trading and profit and loss account) was then prepared and a gross profit of \$60 000 and a profit for the year (net profit) of \$15 000 was calculated.

Jayani then discovered the following errors:

- 1 A sale of office equipment at net book vaule, \$3 000, had been recorded in the sales account.
- 2 Purchases of goods, \$650, on credit from Alana had been credited to the purchases account and debited to Alana's account.
- 3 An invoice from JGL Insurance, \$425, for buildings insurance, had not been recorded in the books.

REQUIRED

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

| Dr | Cr |
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Journal

[6]

For Examiner's Use

(b) Name the type of error made in 1 to 3 above.

(c) Calculate the revised gross profit and profit for the year (net profit) for Jayani, following the correction of the errors 1 to 3 above.

Where the error would have no effect on the gross profit or profit for the year (net profit), state 'no effect'.

| | Gross profit | Profit for the year (Net profit) |
|----------------|--------------|-------------------------------------|
| | \$ | \$ |
| Draft profit | 60 000 | 15 000 |
| Error 1 | | |
| Error 2 | | |
| Error 3 | | |
| Revised profit | | |

[8]

For

Examiner's Use

(d) Jayani is considering the purchase of a new computerised book-keeping system. State **two** benefits that Jayani will gain from using Information and Communications Technology (ICT) in book-keeping.

| (i) | | | | |
|-------|------|------|--------|-----------|
| | | | | |
| | | | •••••• | ••••• |
| | | | | |
| (ii) | | | | |
| | | | | |
| | | | | [2] |
| ••••• | | | | |

[Total: 19]

3 Harland Ltd had the following balances in its accounts **after** the calculation of the profit for the year (net profit) ended 31 October 2010:

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~

250 000 500 000

| | \$ |
|---|-----------|
| Called up share capital: | |
| 4% \$1 Cumulative preference shares | 200 000 |
| \$1 Ordinary shares | 400 000 |
| Non-current (fixed) assets | 700 000 |
| 6% Debentures | 100 000 |
| Inventory (stock) | 55 000 |
| Trade payables (creditors) | 50 000 |
| Trade receivables (debtors) | 105 000 |
| Profit (net profit) for the year ended 31 October 2010 | 65 000 |
| Profit and loss account (retained profit) 1 November 2009 | 75 000 |
| General reserve | 110 000 |
| Bank | 40 000 Dr |
| Interim preference dividend paid | 5 000 |
| Additional information | |
| 1 Authorised share capital: | \$ |

2 The directors have decided to:

\$1 Ordinary shares

Transfer \$25 000 to the general reserve.

4% \$1 Cumulative preference shares

Pay the remainder of the cumulative preference share dividend for the year. An interim dividend of $2\frac{1}{2}$ % was paid on 30 April 2010.

Pay a \$0.05 final dividend on the ordinary shares. No interim dividend had been paid.

| RE | QUIRED | For Examiner's |
|-----|---|-------------------|
| (a) | Prepare the appropriation account for Harland Ltd for the year ended 31 October 2010. | Use |
| | Harland Ltd Appropriation Account for the year ended 31 October 2010 | |
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| | [6] | |

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(b) Prepare the balance sheet extract for the shareholders' funds (capital and reserves) of Harland Ltd at 31 October 2010.

| | Extract from Balance Sheet at 31 October 2010 |
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| (c) | State the amount of the capital employed by Harland Ltd at 31 October 2010. |
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| | [1] |
| | |

Harland Ltd Extract from Balance Sheet at 31 October 2010

| (d) | Explain the difference between preference shares and cumulative preference shares. | For Examiner's Use |
|-----|--|--------------------------|
| | | Use |
| | | |
| | [2] | |
| (e) | State one difference between ordinary shares and debentures. | |
| | | |
| | | |
| | [2] | |
| (f) | Explain two benefits of international accounting standards. | |
| | (i) | |
| | | |
| | | |
| | (ii) | |
| | | |
| | [2] | |
| | | |
| (g) | Explain the term capital expenditure. | |
| | | |
| | | |
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| | | |
| | [2] | |
| | | |

(h) In the table below, place a tick (✓) under the correct heading to indicate which of the following is capital expenditure or revenue expenditure.

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| | Capital expenditure | Revenue expenditure |
|--------------------------|---------------------|---------------------|
| Advertising campaign | | |
| A new computer system | | |
| Purchase of computer CDs | | |

[3]

[Total: 23]

4 Windy Ltd is in business buying and selling goods on credit. The following balances were taken from the books of Windy Ltd.

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| | Year ended | Year ended |
|--|--------------------------------|-------------------|
| | 30 September 2009 | 30 September 2010 |
| | \$ | \$ |
| Non-current (fixed) assets | 80 000 | 200 000 |
| Inventory (stock) | 55 000 | 60 000 |
| Trade receivables (debtors) | 50 000 | 90 000 |
| Trade payables (creditors) | 30 000 | 75 000 |
| Amount due in more than one year | - | 50 000 |
| (long-term loan) | _ | 30 000 |
| Bank | 15 000 | |
| Bank overdraft | 13 000 | 45 000 |
| Dalik Overdrait | - | 45 000 |
| REQUIRED | | |
| (a) Calculate the following. Give your a | nswers to two decimal p | places. |
| Show your workings. | | |
| (i) Current ratio at 30 September 2 | 2009 | |
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Current ratio at 30 September 2010

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| (| (ii) | Quick (acid test) ratio at 30 September 2009 |
|-----|-------------|--|
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| | | Quick (acid tast) ratio at 20 Sontombor 2010 |
| | | Quick (acid test) ratio at 30 September 2010 |
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| | | [4] |
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| (b) | Sug 30 S | gest one reason for the change in liquidity between 30 September 2009 and September 2010. |
| | | |
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| | | |
| | | 101 |
| | | [2] |

| (c) | Suggest four actions which Windy Ltd might take to improve its bank balance. | For Examiner's |
|-----|---|-------------------|
| | (i) | Use |
| | | |
| | | |
| | (ii) | |
| | | |
| | | |
| | (iii) | |
| | | |
| | | |
| | (iv) | |
| | | |
| | [8] | |
| | [Total: 18] | |

| | \$ |
|--------------------------------------|---------|
| Ordinary goods purchased (purchases) | 70 000 |
| Carriage inwards | 3 000 |
| Revenue (sales) | 155 000 |
| Sales returns | 9 500 |
| Non current (fixed) assets: | |
| Motor vehicles | 42 000 |
| Office equipment | 26 000 |
| Provisions for: | |
| depreciation on motor vehicles | 8 000 |
| depreciation on office equipment | 4 000 |
| Provision for doubtful debts | 1 000 |
| Salaries | 23 750 |
| Rent and rates | 6 800 |
| Discount received | 5 600 |
| Sundry expenses | 14 150 |
| Advertising | 6 200 |
| Trade payables (creditors) | 18 300 |
| Trade receivables (debtors) | 23 000 |
| Inventory (stock) at 1 October 2009 | 11 500 |
| Bank overdraft | 16 000 |
| Capital | 40 000 |
| Drawings | 12 000 |

Additional information at 30 September 2010

- 1 Inventory (stock) was valued at \$14 600.
- 2 During the year Doji took goods costing \$1250 for his own use. No entries have been made in the books.
- 3 Advertising, \$300, was prepaid. Salaries, \$2600, were accrued.
- 4 Depreciation is to be charged as follows: motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method; office equipment at the rate of 10% per annum using the straight line method.
- 5 Trade receivables (debtors) include a debt of \$4250 which is considered irrecoverable and is to be written off. The provision for doubtful debts is to be maintained at 4% of all remaining debts.
- 6 On 1 April 2010 Doji made a short-term loan, \$10 000, to the business. This was included in error in the capital account. Interest payable at 5% per annum has not been entered in the books.

REQUIRED

- (a) Prepare the income statement (trading and profit and loss accounts) of Doji for the year ended 30 September 2010. [22]
- (b) Prepare the balance sheet of Doji at 30 September 2010. [18]

[Total: 40]

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