UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME	

CENTRE NUMBER		CANDIDATE NUMBER	

0177314750

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 **May/June 2011**

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	
3	
4	
5	
Total	

This document consists of **13** printed pages, **6** lined pages and **1** blank page.

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1 Mohan is a trader. On 24 April 2011 he had a bank overdraft of $150.

The following transactions took place during the week ended 30 April 2011.

April 25	Withdrew $200, by cheque, for personal use.
April 26	Paid by cheque the balances on the accounts owed to: Kerai, $400, less 3% cash discount Susan, $750, less 4% cash discount.
April 27	Cash sales, $630, paid into the bank.
April 28	Received a cheque from Loula for the balance of her account, $2000, less 4% cash discount.
April 30	Cashed cheque to pay wages, $430.

REQUIRED

(a) Prepare the bank columns of Mohan's cash book for the week ended 30 April 2011. Show the balance brought down on 1 May 2011.

Mohan
Cash Book (Bank columns only)

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....[8]

On 1 May 2011 Mohan received the following bank statement:

Bank Statement

	Dr	Cr	Balance
	$	$	$
April 24 Balance			150 Dr
April 25 Cheque	200		350 Dr
April 28 Cheque	388		738 Dr
April 29 Cheque	720		1 458 Dr
April 29 Credit Transfer (Dividend)		24	1 434 Dr
April 29 Credit		630	804 Dr

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REQUIRED

(b) Starting with the closing balance from **(a)** update the bank columns in the cash book. Bring down the amended balance.

Mohan
Cash Book (Bank columns only)

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(c) Prepare the bank reconciliation statement at 1 May 2011.

Mohan
Bank Reconciliation Statement at 1 May 2011

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(d) Place a tick (✓) in the appropriate box to show whether **each** of the following is an account, a book of prime entry or both an account and a book of prime entry. The first item has been completed as an example.

	ledger account	book of prime entry	a ledger account and a book of prime entry
Inventory	✓		
Purchases journal			
Cash book			
Provision for depreciation			

[3]

[Total: 20]

2 Amayi owns a manufacturing business. Her financial year ends on 30 April.

She has the following depreciation policy:

Machinery is depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

Office furniture is depreciated at the rate of 10% per annum using the straight-line method.

Loose tools are depreciated using the revaluation method.

A full year's depreciation is charged on assets in the year of purchase but no depreciation is charged in the year of sale.

REQUIRED

(a) Give **two** reasons why depreciation should be charged.

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2 ....

.... [4]

(b) Suggest **one** reason why the diminishing (reducing) balance method might be the most appropriate method for Amayi to depreciate her machinery.

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.... [2]

The following information is available for the year ended 30 April 2011.

1 Balances 1 May 2010

	$
Non-current assets at cost	
Machinery	80 000
Office furniture	15 000
Provisions for depreciation	
Machinery	60 000
Office furniture	5 000

2 On 31 July 2010, additional machinery, $18 000, was purchased.

3 On 20 February 2011, office furniture, which had cost $1 000 on 1 May 2008, was sold for $550 cash.

4 On 1 May 2010, loose tools, cost price $1600, were valued at $1050.
Additional loose tools were purchased during the year for $630.
On 30 April 2011 loose tools were valued at $1400.

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REQUIRED

(c) Calculate the depreciation to be charged on **each** of the following for the year ended 30 April 2011.

(i) Machinery

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(ii) Office furniture

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(iii) Loose tools

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(d) Calculate the profit or loss on the office furniture sold on 20 February 2011.

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(e) Calculate the net book value on 30 April 2011 of

(i) Machinery

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(ii) Office furniture

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(f) Identify by ticking the appropriate box, (✓) whether **each** payment is capital expenditure or revenue expenditure.

	Capital expenditure	Revenue expenditure
Purchase of spares for machinery		
Installation of additional machinery		
Repairs to office furniture		
Purchase of loose tools		

[4]

[Total: 21]

3 Tanvir does not keep a full set of double entry accounts.

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The following information is available for the year ended 30 April 2011.

Summarised Bank account

	$		$
Receipts from customers	60 500	Balance b/d	100
Sale of non-current asset	750	Payments to suppliers	34 900
		Wages	15 000
		Lighting and heating	2 500
		Drawings	5 000
		Purchase of non-current asset	8 000
Balance c/d	10 250	General expenses	6 000
	71 500		71 500

Additional information:

	1 May 2010		30 April 2011	
	$		$	
Inventory	5 250		11 000	
Trade receivables	9 750		8 400	
Trade payables	10 500		9 300	
Non-current assets (book value)	40 000		42 000	
Lighting and heating	600	Prepaid	250	Accrued
6% Bank loan repayable 30 April 2016	20 000		20 000	
Capital	25 000		?	

The non-current asset sold during the year had a book value of $1 000.

REQUIRED

(a) Calculate for the year ended 30 April 2011:

(i) Sales

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....[3]

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(ii) Purchases

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(b) Prepare the income statement for the year ended 30 April 2011.

Tanvir
Income Statement for the year ended 30 April 2011

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(c) Prepare the statement of financial position (balance sheet) at 30 April 2011.

For Examiner's Use

Tanvir
Statement of Financial Position (Balance Sheet) at 30 April 2011

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[Total: 20]

4 Mary is in business buying and selling goods on credit. The following information was available at 30 April 2011.

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	$
Inventory 1 May 2010	5 500
Inventory 30 April 2011	7 500
Capital 30 April 2011	75 000
Operating expenses for the year	23 500
Purchases for the year	72 000
Mark up	50%

REQUIRED

(a) Calculate for the year ended 30 April 2011:

(i) Revenue (sales)

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(ii) Rate of inventory turnover (correct to **one** decimal place)

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(iii) Profit for the year (net profit)

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(iv) Percentage net profit /revenue (correct to **one** decimal place)

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(v) Percentage net profit / capital (correct to **one** decimal place).

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(b) Explain why businesses with a high rate of inventory turnover often have a low percentage net profit to revenue.

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(c) Mary is considering ways in which she might increase her rate of inventory turnover.

For each of the options below, place a (✓) to indicate whether the option would increase **or** decrease the rate of inventory turnover.

	Increase rate of inventory turnover	Decrease rate of inventory turnover
(i) Hold a 'Sale' and reduce prices by 20%.		
(ii) Increase the inventory by $20 000.		
(iii) Raise selling prices by 10%.		

[3]

[Total: 19]

Answer Question 5 on the following pages.

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5 Fu, Li and Yang are partners in a retail business. The partnership agreement states that they share profits and losses in the ratio 2:2:1.

Interest on capital is allowed at the rate of 4% per annum and interest is charged on drawings at the rate of 5% per annum on the balances at 30 April 2011.

The following balances were extracted from the books on 30 April 2011.

	$	
Capital accounts		
Fu	40 000	
Li	35 000	
Yang	25 000	
Current accounts		
Fu	2 500	Cr
Li	1 500	Cr
Yang	1 000	Dr
Drawings		
Fu	10 000	
Li	10 000	
Yang	12 000	
Premises	44 750	
Motor vehicles (cost)	16 000	
Fixtures and fittings (cost)	30 000	
Provisions for depreciation		
Motor vehicles	3 200	
Fixtures and fittings	17 500	
Trade payables	54 700	
Trade receivables	45 000	
Provision for doubtful debts	1 500	
Bank	7 560	Dr
Purchases	111 200	
Revenue (sales)	209 500	
Returns outward	4 750	
Inventory at 1 May 2010	30 650	
Salaries and wages	42 100	
Heat and light	3 890	
General expenses	16 750	
Discount received	5 300	
Marketing expenses	12 050	
Rent	7 500	

Additional information at 30 April 2011:

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1 Inventory was valued at $28 100.

2 General expenses, $4 200, were prepaid.

3 Rent, $2 500, was accrued.

4 Depreciation is to be charged as follows:

Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method

Fixtures and fittings at the rate of 10% per annum on cost, using the straight line method.

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

6 On 30 April 2011 the partners agreed to allow Yang to reduce his capital balance by $10 000. The sum was transferred to his current account on that date. The transfer took place after calculating the interest on capital for the year.

REQUIRED

(a) Prepare the income statement and appropriation account of Fu, Li and Yang for the year ended 30 April 2011. [24]

(b) Prepare the statement of financial position (balance sheet) of Fu, Li and Yang at 30 April 2011.

The current accounts details may be included within the statement of financial position (balance sheet) or in ledger account format. [16]

[Total: 40]

Answer Question 5 on the following pages.

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For Examiner's Use

For Examiner's Use

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For Examiner's Use

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