



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

CANDIDATE  
NAME

CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**PRINCIPLES OF ACCOUNTS**

**7110/21**

Paper 2

**October/November 2011**

**2 hours**

Candidates answer on the Question Paper.

**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.

For Examiner's Use	
1	
2	
3	
4	
5	
<b>Total</b>	

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



- 1 Christos is in business buying and selling goods on credit. The following details relate to the account of his customer Michelle for the month of July 2011.

		\$
July 1	Michelle owed Christos	200
July 7	Christos sent an invoice to Michelle	150
July 16	Christos sent a credit note to Michelle	8
July 31	Michelle sent Christos a cheque	195
July 31	Christos allowed Michelle cash discount	5

**REQUIRED**

- (a) Prepare the account of Michelle in the books of Christos. Bring down the balance on 1 August 2011.

Christos  
Michelle account

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[6]

- (b) Name the book of prime entry in which Christos would record the transaction of 16 July 2011.

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[1]

The balances on Christos' books at 31 July 2011 were as follows:

	\$
Capital	?
Drawings	8 000
Office furniture	5 000
Provision for depreciation on office furniture	3 200
Inventory	4 150
Bank overdraft	250
Trade payables	2 950
Sundry expenses	10 600
Purchases	32 400
Provision for doubtful debts	350
Revenue (sales)	53 750
Trade receivables	6 250

**REQUIRED**

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Use

- (c) Prepare the trial balance for Christos at 31 July 2011, including the balance on the capital account.

Christos  
Trial Balance at 31 July 2011

Dr	Cr
\$	\$

..... [6]

- (d) State the item in the trial balance which would include the balance on Michelle's account.

..... [1]

- (e) State **two** differences between a trial balance and a balance sheet.

1 .....

2 .....

..... [4]

[Total: 18]  
[Turn over

- 2 Majda prepared a trial balance on 31 August 2011. The trial balance failed to agree and a suspense account was opened.

It was discovered that all of the errors had been made in one of the trade receivable accounts, M.H. Supplies Ltd.

Details of the account for August 2011 were as follows:

M.H. Supplies Ltd account

Date	Description	Dr	Cr	Balance
2011		\$	\$	\$
1 August	Balance			1 650 Dr
10 August	Sales	460		2 110 Dr
13 August	Sales returns		60	2 050 Dr
23 August	Bank		1 617	433 Dr
23 August	Discount	33		466 Dr

The following errors were found:

- 1 On 10 August goods, list price \$800, less 20% trade discount, were sold to M.H. Supplies Ltd. The transaction was correctly recorded in the sales journal.
- 2 On 20 August a credit sale of goods, \$1200, to M.H. Supplies Ltd, was correctly entered in the sales journal, but was posted to the account of M. Hardware Ltd.
- 3 On 23 August M.H. Supplies Ltd paid the balance on 1 August, less 2% cash discount. The transaction was correctly recorded in the cash book.

**REQUIRED**

- (a) Name the document sent to M.H. Supplies Ltd to record the transaction of 13 August 2011.

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 ..... [1]

- (b) Name the type of error made on 20 August 2011.

.....  
 ..... [1]

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

*For  
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Use*

Journal

Dr	Cr
\$	\$

..... [6]

- (d) Prepare the suspense account, clearly showing the original difference on the trial balance.

Suspense account

..... [4]

(e) Calculate the correct balance owed by M.H. Supplies Ltd to Majda on 31 August.

For  
Examiner's  
Use

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..... [4]

(f) Majda uses Information and Communications Technology (ICT) book-keeping software to prepare her accounts.

State **two** benefits to Majda from using ICT book-keeping software.

1 .....  
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2 .....  
..... [4]

**[Total: 20]**



**(b)** Prepare the refreshments trading account for the year ended 31 October 2011.

Sandbury Sports Club  
Refreshments Trading Account for the year ended 31 October 2011.

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**(c)** Prepare the income and expenditure account for the year ended 31 October 2011.

Sandbury Sports Club  
Income and Expenditure Account for the year ended 31 October 2011.

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- (d) (i) State the section of Sandbury Sports Club's balance sheet on 31 October 2011 in which subscriptions paid in advance will appear. Give a reason for your answer.

Section: .....

Reason: .....

..... [2]

- (ii) State the section of Sandbury Sports Club's balance sheet on 31 October 2011 in which purchase of equipment will appear. Give a reason for your answer.

Section: .....

Reason: .....

..... [2]

**[Total: 24]**

4 The following information relates to the business of Samara, a wholesaler.

		\$
Revenue (sales) for year ended 30 September 2011		200 000
Inventory 1 October 2010		18 000
At 30 September 2011		
Inventory		36 000
Trade receivables		24 000
Bank overdraft		10 000
Trade payables		40 000
Mark up	25%	
Net profit/sales	6%	

**REQUIRED**

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

(i) purchases

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..... [3]

(ii) expenses

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..... [3]

(b) Calculate at the 30 September 2011:

(i) working capital ratio (current ratio), correct to **one** decimal place

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..... [3]

(ii) quick ratio (acid test), correct to **one** decimal place.

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..... [3]

(c) Explain why the quick ratio (acid test) is a more accurate measure of the liquidity of a business than the working capital ratio (current ratio).

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..... [3]

(d) State **three** actions that Samara could take to improve his bank balance.

1 .....

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2 .....

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3 .....

..... [3]

[Total: 18]

[Turn over

**Answer Question 5 on the following pages.**For  
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- 5 Donney and Raj are in partnership sharing profits and losses in the ratio 2:1. Interest is allowed on capital at the rate of 4% per annum. Raj receives a salary of \$12 000 per annum.

The following balances were extracted from the books on 30 September 2011:

	\$
Capital accounts	
Donney	150 000
Raj	100 000
Current accounts	
Donney	15 000 Cr
Raj	3 500 Dr
Drawings	
Donney	15 000
Raj	15 000
Revenue (sales)	365 000
Inventory at 1 October 2010	53 500
Purchases	173 000
Returns inwards	9 200
Returns outwards	5 500
Carriage	16 500
Administration expenses	25 750
Advertising	23 480
Wages and salaries	66 700
Land and buildings	170 000
Motor vehicles (cost)	75 000
Fixtures and fittings (cost)	50 000
Provisions for depreciation	
Motor vehicles	25 000
Fixtures and fittings	24 000
Sundry expenses	10 250
Loan interest paid	2 000
8% Loan repayable 31 December 2025	50 000
Trade receivables	62 500
Provision for doubtful debts	2 000
Trade payables	30 500
Bank	4 380 Cr

Additional information:

- 1 Inventory at 30 September 2011, \$61 450.
- 2 Carriage is to be apportioned 30% to the collection of purchases and 70% to the delivery of goods to customers.
- 3 At 30 September 2011:
  - Administration expenses, \$630, were prepaid.
  - Wages and salaries, \$2700, were accrued.
- 4 Depreciation is to be charged on:
  - Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method.
  - Fixtures and fittings at the rate of 15% on cost using the straight-line method.

- 5 Trade receivables include a debt of \$2500 which is considered irrecoverable.
- 6 The provision for doubtful debts is to be maintained at 4% of trade receivables.

*For  
Examiner's  
Use*

**REQUIRED**

- (a) Prepare the income statement and appropriation account of Donney and Raj for the year ended 30 September 2011. [23]
- (b) Prepare the balance sheet of Donney and Raj at 30 September 2011.  
The current accounts details may be included within the balance sheet or in account format outside the balance sheet. [17]

**[Total: 40]**















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