

CANDIDATE  
NAME

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CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**PRINCIPLES OF ACCOUNTS**

**7110/22**

Paper 2

**October/November 2016**

**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 **18** printed pages and **2** blank pages.

- 1 The following balances remained in the books of Fabio at 30 June 2016. He was aware that there were some book-keeping errors and that the trial balance would **not** balance.

	\$
Motor vehicle	9 500
Trade payables	8 500
Inventory	4 850
Revenue (Sales)	22 000
Purchases	14 400
Bank loan	2 000
Bank overdraft	1 630
Trade receivables	7 250
Capital	3 000

**REQUIRED**

- (a) Complete the trial balance at 30 June 2016, balancing the trial balance by the use of an appropriate account.

Fabio  
Trial Balance 30 June 2016

	Debit	Credit
	\$	\$
Motor vehicle		
Trade payables		
Inventory		
Revenue (Sales)		
Purchases		
Bank loan		
Bank overdraft		
Trade receivables		
Capital		

[4]

On inspection of his books, Fabio located the following errors.

- 1 A sale of goods, \$850, had been correctly recorded in the account of a credit customer, but had been recorded in the revenue (sales) account as \$580.
- 2 A purchase of goods, \$700, had been correctly entered in the account of a credit supplier, but had been credited to the purchases account.

**REQUIRED**

- (b) Prepare the general journal entries to correct errors 1 and 2. Narratives are **not** required.

## General journal

	Debit	Credit
	\$	\$

[4]

- (c) Complete the following table for **each** of Fabio's transactions in July 2016. If the capital is not affected write 'No effect'. The first transaction has been completed as an example.

Transaction	Book of prime entry	Account to be debited	Account to be credited	Effect on capital \$
Sold goods costing \$900 on credit to Noah for the list price of \$1500.	<i>Sales Journal</i>	<i>Noah</i>	<i>Revenue (Sales)</i>	<i>+\$600</i>
Noah returned goods with a list price of \$100.				
Paid Sophie a cheque for \$610.				
A debt, \$230, owed by Zain was written off.				

[12]

**[Total: 20]**

- 2 Lyana is preparing her financial statements. She provides the following information.

1 October 2015                      Rent receivable account                      \$2500 Credit

The bank account contained the following entries.

Receipts

31 December 2015                      Rent received by cheque \$6700  
30 April 2016                      Rent received by cheque \$3100

Payments

31 January 2016                      Refund for overpayment of rent receivable \$700

Additional information

The rent receivable amounts to \$12 000 a year.

**REQUIRED**

- (a) Prepare the rent receivable account for the year ended 30 September 2016. Make the transfer to the income statement and bring down the balance on 1 October 2016.

Rent receivable account

Date	Details	\$	Date	Details	\$

[5]

After preparing the draft income statement, which showed a profit for the year of \$24 000, Lyana discovered some errors.

**REQUIRED**

(b) Complete the following table showing the effect on the profit for the year of **correcting** each error. Calculate the revised profit for the year.

	\$	\$	\$
Profit for the year			24 000
	Increase	Decrease	
Purchases of \$500 had not been recorded in the books.			
Goods, \$800, had been counted twice in the closing inventory.			
No adjustment had been made for prepaid insurance \$950.			
Discount allowed, \$1600, had been added to gross profit.			
Equipment costing \$15 000 (accumulated depreciation \$6600) had been depreciated by 20% on cost. The reducing (diminishing) balance method should have been used at a rate of 20%.			
Commission receivable, \$400, had been omitted from the draft income statement.			
Revised profit for the year			

[8]

(c) Define the term 'revenue receipt'.

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.....

.....[2]

- (d) Complete the following table by inserting a (✓) showing whether **each** transaction is revenue expenditure, a revenue receipt, capital expenditure or a capital receipt. The first one has been completed as an example.

Transaction	Revenue		Capital	
	Expenditure	Receipt	Expenditure	Receipt
Sold office computer				✓
Received interest on deposit account				
Took out a 5-year bank loan				
Paid property insurance				
Bought motor vehicle to deliver goods				
Received commission				

[5]

**[Total: 20]**

**Question 3 is on the next page.**

3 Cam Limited provided the following information.

	\$
At 1 October 2015	
Issued share capital \$1 Ordinary shares	70 000
General reserve	40 000
Debentures (Repayable 2025)	50 000
Retained profits	92 000
For the year ended 30 September 2016	
Profit for the year	75 000
Interim dividend paid on ordinary shares	7 000

Additional information

- 1 On 1 November 2015 an additional 30 000 ordinary shares of \$1 each were issued.
- 2 On 30 September 2016 the directors:  
transferred \$80 000 to the general reserve,  
paid a final ordinary dividend of \$0.20 per share on all issued shares.

**REQUIRED**

(a) Complete the statement of changes in equity for the year ended 30 September 2016.

Cam Limited  
Statement of Changes in Equity for the year ended 30 September 2016

	Share Capital \$	General Reserve \$	Retained Profits \$	Total \$
Balance at 1 October 2015	70 000	40 000	92 000	202 000
Share issue				
Profit for the year				
Transfer to general reserve				
Dividend paid (interim)				
Dividend paid (final)				
Balance at 30 September 2016				

[8]





(d) State **two** differences between ordinary shares and debentures.

1 .....

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2 .....

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[4]

**[Total: 20]**

**Question 4 is on the next page.**

- 4 Zahin is a trader, buying and selling goods on credit. The following information is available on 31 August 2016.

	\$
Capital	60 000
Bank loan (repayable 2020)	20 000
Inventory	
1 September 2015	29 000
31 August 2016	31 000
Purchases	170 000
Percentage of gross profit to revenue (Gross profit margin)	25%
Percentage of profit for the year to revenue (Profit margin)	5%

### REQUIRED

- (a) Calculate the following for the year ended 31 August 2016. Comparative figures for the previous year are shown.

	Year ended 31 August 2016		Year ended 31 August 2015
	Workings	Answer	
Revenue for the year			\$200 000
Percentage mark-up			27%
Expenses for the year			\$36 000
Return on capital employed (ROCE) based on profit for the year			21%

[10]



- 5 The following balances were extracted from the books of Project Manufacturing on 30 September 2016.

	\$
Capital	140 000
Drawings	39 800
Revenue (Sales)	380 000
Purchases of finished goods	36 000
Factory managers' salaries	29 000
Office wages and salaries	50 000
Premises maintenance	11 000
Royalties	8 000
Factory wages	73 000
Rent	16 400
Insurance	5 000
Advertising expenses	15 400
Administration and finance costs	9 500
Factory machinery (cost)	115 000
Office fixtures (cost)	14 000
Provisions for depreciation	
Factory machinery	50 000
Office fixtures	6 200
Purchases of raw materials	106 000
Inventory at 1 October 2015	
Raw materials	8 700
Work in progress	19 000
Finished goods	34 100
Provision for doubtful debts	900
Trade receivables	32 000
Commission received	3 000
Trade payables	18 700
Bank overdraft	23 100

Additional information at 30 September 2016

1 Inventory

	\$
Raw materials	9 750
Work in progress	17 550
Finished goods	40 400

2 Expenses are to be apportioned to the factory and the office as follows:

	Factory	Office
Insurance	80%	20%
Rent	75%	25%
Premises maintenance	60%	40%

3 Administration and finance costs owing were \$750.

4 Advertising expenses of \$1200 were prepaid.

5 Depreciation is to be charged as follows:

- (i) factory machinery at 20% per annum using the diminishing (reducing) balance method
- (ii) office fixtures at 10% per annum using the straight-line method.

6 A provision for doubtful debts is to be maintained at the rate of 5%.











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