UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 **May/June 2013**

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.

This document consists of **12** printed pages and **4** lined pages.

DC (SJF) 63011/3

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1 Mary started business on 1 January 2012, renting premises at $12 000 per annum, paid by instalments on the first day of January, April, July, and October.

On 1 August 2012 Mary let part of the premises to another business for $5400 per annum, to be paid by instalments on the first day of August, November, February, and May.

Mary paid the rent on 1 January, 1 April, and 1 July 2012.

The tenant paid rent to Mary on 1 August and 1 November 2012.

REQUIRED

(a) Prepare the rent payable account for the year ended 31 December 2012. Balance the account and bring the balance down on 1 January 2013.

Rent Payable account

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....[5]

(b) Explain the meaning of the balance on 1 January 2013.

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....

....[2]

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(c) Prepare the rent received account for the year ended 31 December 2012.
Balance the account and bring the balance down on 1 January 2013.

Rent Received account

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....[5]

(d) Explain the meaning of the balance on 1 January 2013.

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....[2]

Mary bought a motor vehicle, $15 000.

(e) State the section of Mary's balance sheet (statement of financial position) where this will be shown.

....[1]

(f) Explain the difference between capital and revenue expenditure.

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....[4]

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(g) Indicate by placing a tick (✓) which transactions are capital expenditure and which are revenue expenditure.

	Transaction	Capital expenditure	Revenue expenditure
(i)	Purchase of fixtures and fittings		
(ii)	Installing and testing an air conditioning system		
(iii)	Insurance of shop premises		

[3]

[Total: 22]

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2 The following are some of the transactions carried out by Tay, a retailer, during April 2013.

(i) Paid insurance $470 by cheque.

(ii) Sold goods on credit to J Dins, cost price $6400 plus 80% mark up.

(iii) Paid amount owing to P Lee by cheque, $1800, less 4% cash discount.

(iv) Returned damaged goods costing $590 to R & R Ltd.

REQUIRED

(a) Complete the table below for transactions **(ii)** to **(iv)**. Transaction **(i)** has been completed as an example.

Transaction	Source document	Accounts debited and amount	Accounts credited and amount	Effect on profit for year
(i)	*Cheque counterfoil*	*Insurance $470*	*Bank $470*	*–$470*
(ii)				
(iii)				
(iv)				

[12]

(b) Explain why Tay received cash discount from P Lee.

....[2]

Tay supplied the following information for year ended 30 April:

1 2013

	$
Revenue	60 000
Cost of sales	48 000

2 2012

Revenue	58 000
Gross profit to sales ratio	33.3%

REQUIRED

(c) Calculate Tay's gross profit to sales ratio for the year ended 30 April 2013.

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....[2]

(d) Compare the gross profit to sales ratio in 2012 with your answer in **(c)** and suggest **three** possible causes for any changes that may have taken place.

1 ....

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2 ....

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3 ....

....[6]

(e) Make **two** suggestions on how Tay may use the gross profit to sales ratio.

1 ....

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2 ....

....[4]

[Total: 26]

3 The following balances were extracted from the books of Alex Penn on 31 March 2013.

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	$
Equipment (net book value)	40000
Delivery vans (net book value)	22000
Inventory	10670
Trade receivables	11200
Other receivables	4130
Bank overdraft	4200
Trade payables	8800
6% Bank loan (repayable 23 May 2016)	15000
Capital 31 March 2013	70000
Drawings	10000

During the year Penn had purchased non-current assets to the value of $20000.

REQUIRED

(a) Calculate the working capital.

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....[2]

(b) Calculate the following to two decimal places:

(i) Working capital ratio (current ratio)

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....[2]

(ii) Quick ratio (acid test ratio)

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....[2]

For the year ended 31 March 2012 Penn's working capital ratio (current ratio) was 3:1 and his quick ratio (acid test ratio) was 1:1.

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(c) Suggest **three** reasons why Penn's liquidity position may have changed.

1 ....

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2 ....

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3 ....

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....[6]

(d) Suggest **two** courses of action Penn could take to improve his liquidity.

1 ....

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2 ....

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....[6]

[Total: 18]

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4 On 1 April 2011 Lynne purchased two motor vehicles for business use on credit from Villa Motors Limited. The vehicles cost $12 000 each.

Depreciation is charged on the motor vehicles at 20% per annum by the diminishing (reducing) balance method. A full year's depreciation is charged in the year of purchase but no depreciation is charged in the year of sale.

On 23 January 2013 one of the motor vehicles was sold for $6500.

REQUIRED

(a) Show the journal entry to record the purchase of the motor vehicles on 1 April 2011. Dates and narratives are **not** required.

Journal

	Debit $	Credit $
....	....	....
....	....	....
....	....	....
....	....	....

[2]

(b) Prepare the provision for depreciation account for the years ended on 31 March 2012 and 2013.

Provision for Depreciation account

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....[5]

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(c) Prepare the disposal account.

Disposal account

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....[5]

(d) State **two** other methods of depreciation.

1 ....

2 ....[2]

[Total: 14]

5 The following balances were extracted from the books of Paul Lee, a manufacturer, on 31 May 2013.

	$	
Capital	220000	
Drawings	10800	
Factory machinery (cost)	210000	
Office equipment (cost)	60000	
Provision for depreciation:		
Factory machinery	75600	
Office equipment	21600	
Inventory at 1 June 2012:		
Raw materials	33000	
Work in progress	36000	
Finished goods	66444	
Purchases of raw materials	133687	
Revenue	426088	
Transport costs	29400	
Wages and salaries	140600	
Rent and rates	28000	
Indirect factory expenses	18423	
Lighting and heating	23140	
Selling and administration expenses	10742	
Bad debts	1000	
Loan interest paid	2000	
Trade payables	43690	
Trade receivables	34400	
Bank	658	Cr
6% Loan (repayable on 23 June 2018)	50000	

Additional information:

1 Inventory values at 31 May 2013:

	$
Raw materials	38000
Work in progress	42600
Finished goods	71200

2 Transport costs are allocated 65% to raw materials and 35% to delivery of finished goods.

3 Wages and salaries include $56000 for production managers' salaries. The remaining balance is split 40% direct labour, 35% indirect labour and 25% office salaries.

4 Rent and rates are apportioned factory 80% and office 20%.

5 Lighting and heating are apportioned factory 70% and office 30%.
On 31 May 2013 these were in arrears by $860.

6 On 31 May 2013 selling and administration expenses had been prepaid by $230.

7 A provision for doubtful debts, representing 4% of trade receivables, is to be created.

8 Factory machinery is depreciated at 20% per annum using the diminishing (reducing) balance method. Office equipment is depreciated at 12% per annum on cost.

REQUIRED

(a) Prepare the manufacturing account for the year ended 31 May 2013. [15]

(b) Prepare the income statement for the year ended 31 May 2013. [13]

(c) Prepare the balance sheet (statement of financial position) at 31 May 2013. [12]

[Total: 40]

Answer Question 5 on the following pages.

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