

CANDIDATE  
NAME

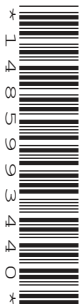
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CENTRE  
NUMBER

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NUMBER

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**PRINCIPLES OF ACCOUNTS**

Paper 2

**7110/22**

**May/June 2014**

**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 **20** printed pages.

1 (a) (i) Explain the difference between book-keeping and accounting.

.....  
 .....  
 .....  
 ..... [2]

(ii) Explain the accounting entity principle.

.....  
 .....  
 .....  
 ..... [2]

Fashran sells goods to Hajar. On 1 April Hajar owed Fashran \$2100. The following transactions occurred in April 2014.

- 5 April Fashran sold goods on credit to Hajar, list price \$2000, less 20% trade discount.
- 7 April Hajar returned goods purchased on the 5 April, list price \$240.
- 18 April Hajar paid the balance of her account at 1 April and was allowed 2% cash discount.

**REQUIRED**

(b) Prepare the account of Hajar in the ledger of Fashran for April 2014. Balance the account and bring down the balance.

Hajar account

Date	Details	\$	Date	Details	\$

[5]

(c) Name the document that Fashran will issue on the following dates:

Date		Document
5 April	Fashran sold goods on credit to Hajar	
7 April	Hajar returned goods to Fashran purchased on the 5 April	
30 April	Fashran issues a summary of Hajar's account for the month of April	

[3]

(d) State the sub division of the ledger in which the account of Hajar would appear.

.....[1]

The following balances were extracted from the books of Fashran on 30 April 2014.

	\$
Trade payables	6 450
Trade receivables	9 230
Revenue	68 400
Purchases	29 800
Inventory 1 May 2013	5 100
Expenses	22 350
Bank overdraft	830
Non-current assets	24 000
Provision for depreciation – Non-current assets	7 800

### REQUIRED

(e) Prepare the trial balance showing Fashran's capital at 30 April 2014.

Fashran  
Trial Balance at 30 April 2014

	Dr	Cr
	\$	\$
Trade payables		
Trade receivables		
Revenue		
Purchases		
Inventory 1 May 2013		
Bank overdraft		
Expenses		
Non-current assets		
Provision for depreciation – Non-current assets		
Capital		

[5]

**[Total: 18]**

- 2 On 1 April 2014, Yee's sales ledger control account showed the following balances: \$20 450 debit and \$600 credit.

During April the following transactions were recorded:

	\$
Credit sales	50 500
Cash sales	10 000
Returns from credit customers	700
Receipts from credit customers	48 600
Refunds to credit customers	750
Discount allowed	1 200
Bad debt written off	800

On 1 May 2014, Yee's sales ledger control account showed a credit balance of \$180. The debit balance is to be determined.

**REQUIRED**

- (a) Prepare the sales ledger control account for the month of April 2014. Balance the account and bring down the balances.

Sales ledger control account

Date	Details	\$	Date	Details	\$
1 April	Balance b/d	20 450	1 April	Balance b/d	600

[7]

On inspection of her ledger, Yee discovered the following errors:

- 1 A cheque received from D Moy, \$450, had been posted to the account of D Kay.
- 2 An invoice for goods received from G Fallen, costing \$790, had been recorded in the purchases journal as \$970.
- 3 Discount received, \$45, had been debited to the discount received account and credited to F Tay.
- 4 Repairs to fixtures and fittings, \$800, had been recorded in the fixtures and fittings account.

**REQUIRED**

(b) Prepare the journal entries to correct the errors in **1 to 4** above. Narratives are **not** required.

Journal

	Dr \$	Cr \$
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
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.....	.....	.....
.....	.....	.....

[8]

- (c) Complete the following table to name the type of error in **1 to 4** on the previous page. The first item has been completed as an example.

	Type of error
1 A cheque received from D Moy, \$450, had been posted to the account of D Kay.	<i>Commission</i>
2 An invoice for goods received, costing \$790, had been recorded in the purchases journal as \$970.	
3 Discount received, \$45, had been debited to the discount received account and credited to F Tay.	
4 Repairs to fixtures and fittings, \$800, had been recorded in the fixtures and fittings account.	

[3]

- (d) State **two** reasons why a suspense account would be used.

1 .....

.....

2 .....

..... [2]

[Total: 20]

3 Cadmore Limited is a manufacturing business. The following information is available for the month of April 2014.

	\$
Inventory at 1 April 2014:	
Raw materials	10 830
Work in progress	12 700
Finished goods	25 800
Factory wages	60 690
Office wages	24 750
Purchases of raw materials	80 670
Depreciation of factory machinery	7 000
Depreciation of office equipment	5 000
Rent of factory building	2 000
Rent of office building	1 000
Royalties	7 500
Factory management salaries	10 750
Office management salaries	32 000
Revenue	290 450
Insurance	1 250
General expenses	8 000

Additional information

- 1 Inventory at 30 April 2014:
 

Raw materials	12 400
Work in progress	9 980
Finished goods	24 700
  
- 2 Insurance is to be apportioned 80% to the factory, 20% to the office.
  
- 3 General expenses: \$5000 relate to the factory and \$3000 to the office.

**REQUIRED**

(a) (i) Explain the term direct cost.

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

(ii) State **two** direct costs incurred by Cadmore Limited.

.....  
 .....  
 .....[2]







**Question 4 is on the next page**

4 Najla provided the following information for the year ended 31 March 2014.

	\$
Revenue	168 000
Inventory 1 April 2013	20 000
Inventory 31 March 2014	16 000
Purchases	122 000
Trade receivables	24 500
Trade payables	35 000
Capital	100 000
Bank	1 500 Dr

**REQUIRED**

(a) Calculate the:

Cost of goods sold

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Gross profit/sales percentage

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.....

.....

.....

Rate of inventory turnover

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.....

.....

.....

.....

Working capital ratio (current ratio)

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.....

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.....

.....

.....[10]

In the previous year, ended 31 March 2013, Najla calculated the following ratios:

Gross profit /sales percentage	20%
Rate of inventory turnover	6 times
Working capital ratio (current ratio)	1.7:1

**REQUIRED**

(b) Comment upon the performance of Najla under the following headings, using the information above and your answer in (a).

Controlling inventory

.....  
.....  
.....  
.....

Ability to pay trade payables

.....  
.....  
.....  
..... [4]

(c) Suggest **two** possible reasons for the change in gross profit/sales percentage.

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

Najla is considering the following proposals to improve his working capital.

- 1 Sell obsolete inventory costing \$1000 for cash \$500.
- 2 Sell non-current assets for \$3000 cash.
- 3 Allow trade receivables to pay debts of \$4000 less 5% cash discount.
- 4 Bring \$5000 additional capital into the business: Motor vehicle \$3000 and cash \$2000.

**REQUIRED**

(d) Complete the following table showing the changes to working capital. The first proposal has been completed as an example.

Proposals	Working capital		Amount of change (\$)
	increase	decrease	
1		✓	\$500
2			
3			
4			

[6]

**[Total: 22]**

- 5 Franco is in business as a sole trader. The following balances were extracted from his books on 31 January 2014.

	\$
Land and buildings (cost)	150 000
Fixtures and fittings (cost)	30 000
Computer equipment (cost)	70 000
Provisions for depreciation:	
Land and buildings	20 000
Fixtures and fittings	13 500
Computer equipment	34 000
Disposal account	500 Cr
8% Bank loan (repayable 30 April 2020)	100 000
Bank	17 430 Dr
Trade receivables	45 000
Trade payables	37 650
Provision for doubtful debts	1 400
Revenue	362 500
Purchases	172 400
Returns inwards	7 200
Returns outwards	8 800
Inventory at 1 February 2013	17 970
Distribution expenses	16 300
Insurance	5 900
Light and heat	7 850
Wages and salaries	69 500
Marketing expenses	31 000
General expenses	9 200
Commission received	11 400
Drawings	20 000
Capital	80 000

Additional information at 31 January 2014

- 1 Inventory was valued at \$15 600.
- 2 Wages and salaries includes \$15 000 drawings by Franco.
- 3 Marketing expenses, \$6 750, were prepaid.
- 4 No interest had been paid on the bank loan.
- 5 Computer equipment costing \$8 000 was purchased by cheque on 25 January 2014. No entries had been made in the books.
- 6 Depreciation policy is as follows:
  - (i) The buildings are depreciated at the rate of 2% per annum using the straight line method. Land and buildings consists of land, cost \$50 000, and buildings, cost \$100 000. No depreciation is charged on the land.
  - (ii) Fixtures and fittings at the rate of 15% per annum using the straight line method.
  - (iii) Computer equipment at the rate of 25% per annum using the diminishing (reducing) balance method.









