	Centre Number	Candidate Number
Candidate Name ____________		

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Joint Examination for the School Certificate
and General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS 7110/2

PAPER 2

OCTOBER/NOVEMBER SESSION 2002

1 hour 45 minutes

Additional materials:
Answer paper
Multi-column accounting paper

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper.

Question **6** should be answered on separate answer paper or multi-column accounting paper. Attach your answer to Question **6** to this booklet.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

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.

FOR EXAMINER'S USE	
1	
2	
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TOTAL	

This question paper consists of 11 printed pages and 1 blank page.

(NH) S16052/2

University of Cambridge Local Examinations Syndicate

For Examiner's Use

1 The following errors and omissions were discovered after the preparation of a draft Trading and Profit and Loss Account on 30 September 2002.

1. The credit sale of goods $424 to K. Watts had been recorded in all the books as $242.
2. An invoice amount of $370 from Mubonda Garage for repairs had not been entered in the books.
3. Goods bought from A. Smythe for $700 had been entered in A. Smith's account.
4. Purchase of equipment for $10 000 for use in the business had been debited to the Purchases account.
5. Closing stock had been overvalued by $3000.

Prepare journal entries to correct the above omissions and errors. Narrations are not required:

Journal

Date	Details	Dr. $	Cr. $

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For Examiner's Use

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You may use the rest of this page for workings.

[Turn over

2 Rubble has provided the following information about his business:

Years	**2000**	**2001**
	$	$
Sales	900 000	840 000
Gross Profit	300 000	210 000
Expenses	150 000	180 000
Net profit	150 000	30 000

(a) **(i)** Complete each of the following statements:

In 2001, compared to 2000:

1. Gross profit has decreased by $ .... and net profit has decreased by $ ....

2. Gross profit as a percentage of sales has decreased from ....% to ....% and net profit as a percentage of sales has decreased from ....% to ....%.

3. Expenses as a percentage of sales have increased from ....% to ....%.

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(ii) Using your answers from **(i)**, suggest **three** actions Rubble could take to improve his net profit for 2002.

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Rubble also provides the following information about his stock turnover:

Years	**2000**	**2001**
Rate of stock turnover	10 times	8 times

(b) **(i)** Explain **two** possible reasons for the fall in the rate of stock turnover.

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(ii) Suggest **two** reasons why Rubble should calculate his rate of stock turnover every year.

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(iii) Recommend **two** courses of action Rubble could take to improve his rate of stock turnover.

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3 Hill and Dale traded separately until 31 December 2001. At this date their Balance Sheets were as follows:

	Hill	Dale		Hill	Dale
	$	$		$	$
Buildings	50 000	40 000	Capital	120 000	66 000
Equipment	35 000	22 000	Loan		20 000
Stock	23 000	14 500	Creditors	10 000	5 000
Debtors	16 000	18 500	Bank		4 000
Bank	6 000				
	130 000	95 000		130 000	95 000

The two traders agreed to merge the two businesses and become equal partners as from 1 January 2002. In order to do this it was agreed that:

1. The partnership should take over all the assets and liabilities of the two businesses except the buildings belonging to Hill and the loan owed by Dale.
2. Goodwill was to be valued at $15 000 for Hill and $12 000 for Dale.
3. Equipment should be revalued at $30 000 for Hill and $25 000 for Dale.
4. $500 should be written off Dale's debtors as bad debts.
5. All other items were to be taken over by the partnership of Hill and Dale at their Balance Sheet values.

(a) Draw up the individual capital accounts of each partner showing clearly how the final balances at 1 January 2002 are obtained.

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For Examiner's Use

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(b) Prepare the partnership Balance Sheet of Hill and Dale at 1 January 2002.

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(c) Give a brief explanation of the meaning of Goodwill.

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For Examiner's Use

4 On 30 September 2002 a schedule of debtors extracted from Stone's sales ledger totalled $18 100 but the balance on the Sales Ledger Control account was $19 900.

The following errors were found later.

1. The sales day book had been undercast by $200.

2. A debtor's account had been wrongly balanced as $500 instead of $540.

3. Goods $70 returned by a debtor had been debited to his account.

4. A discount allowed of $60 had been recorded in the cash book but not entered in the customer's account.

5. A written off bad debt of $260 had not been entered in the control account.

6. Balances totalling $340 in the purchases ledger had been set off against balances in the sales ledger but no entries had been made in the control accounts.

7. A debtor's balance of $1600 had not been listed in the schedule of debtors.

8. $40 interest charged on a debtor's outstanding account had been recorded in the sales ledger but not in the control account.

(a) Starting with the original total, make the necessary adjustments to the schedule of debtors.

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For Examiner's Use

(b) Starting with the original balance, prepare a revised Sales Ledger Control account.

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For Examiner's Use

5 P. Said, a merchant, has the following current assets and current liabilities at 31 December 2001.

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Current assets:	
Stock	290 000
Debtors	122 000
Cash at bank	18 000
	430 000
Current liabilities:	
Trade creditors	250 000
Accrued expenses	16 000
	266 000

Explain and comment on what the figures tell you about P. Said's financial position at 31 December 2001.

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Answer Question 6 on separate answer paper or multi-column accounting paper.

6 Justine is a manufacturer of beauty products. The following balances were extracted from her books on 31 December 2001 after the Manufacturing Account had been prepared.

			$	$
Stocks	Raw Materials	(31 December 2001)	3 530	
	Work in Progress	(31 December 2001)	1 450	
	Finished Products	(1 January 2001)	11 200	
Cost of products manufactured			103 780	
Sales of finished goods				137 560
Carriage on sales			1 230	
Advertising			3 410	
Sales staff's commission			8 970	
Office expenses			11 860	
Bank charges			60	
Plant and machinery			51 410	
Provision for depreciation on Plant and Machinery				9 030
Trade debtors			13 600	
Trade creditors				5 210
Provision for doubtful debts (1 January 2001)				310
Bad debts			460	
Cash in hand			90	
Bank overdraft				1 740
Capital				60 450
Drawings			3 250	
			214 300	214 300

The following additional information is available.

1. Stock of finished products at 31 December 2001 was valued at $10 640.
2. During the year, Justine took finished products valued at $600 from the current year's production for personal use. No entries had been made in the books.
3. Sales staff's commission outstanding amounted to $390.
4. The provision for doubtful debts is to be adjusted to 5% of debtors.
5. $50 for bank charges had not been recorded in the books.

(a) Prepare Justine's Trading and Profit and Loss Accounts for the year ended 31 December 2001. [17]

(b) Prepare the Balance Sheet as at 31 December 2001. [17]

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