UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

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|---|---|---|
| CANDIDATE NAME | | |
| CENTRE NUMBER | | CANDIDATE NUMBER |

*0027950379*

**PRINCIPLES OF ACCOUNTS** **7110/21**

Paper 2 **October/November 2012**

**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 | |
| Total | |

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

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UNIVERSITY *of* CAMBRIDGE
International Examinations

1 The following balances were taken from the books of Asir on 1 July 2012.

| | $ |
|---|---|
| Stationery | 60 Dr |
| Rapid Office Supplies | 400 Cr |

The following transactions took place in the three months ended 30 September 2012:

| | |
|---|---|
| July 30 | Paid the balance owing on 1 July 2012 to Rapid Office Supplies by cheque, after deducting 4% cash discount. |
| August 18 | Purchased stationery on credit from Rapid Office Supplies, list price $500, and received 10% trade discount. |
| August 20 | Purchased stationery for cash, $150. |
| September 3 | Returned to Rapid Office Supplies stationery purchased on 18 August, list price $50. |

Asir prepared his financial statements on 30 September 2012. On that date inventory of stationery was valued at $225.

**REQUIRED**

**(a)** State the meaning of the debit balance on the stationery account on 1 July 2012.

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**(b)** Prepare the following ledger accounts. Balance the accounts at 30 September 2012 and show the transfer to the income statement where appropriate.

Stationery account

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Rapid Office Supplies account

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**(c)** State the document sent by Rapid Office Supplies to Asir for the:

**(i)** Purchase of stationery on 18 August 2012

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**(ii)** Return of stationery on 3 September 2012.

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

**(d)** On 30 September 2012 Asir extracted a trial balance and prepared his financial statements. State the amount for stationery which would appear in **each** of the following:

| | $ |
|---|---|
| Trial balance | |
| Income statement | |
| Balance sheet | |

[3]

**(e)** State the section of Asir's balance sheet on 30 September 2012 in which the following balances would appear:

**(i)** Stationery

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**(ii)** Rapid Office Supplies

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**(f)** **(i)** Explain why Asir did not transfer all of the stationery purchased in the three month period to the income statement.

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**(ii)** Name the accounting concept applied by Asir.

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**[Total: 20]**

2 On 31 August 2011 the following extract was taken from the balance sheet of Stavros.

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| Non-current assets | Cost | Accumulated depreciation | NBV |
|---|---|---|---|
| | $ | $ | $ |
| Equipment | 60 000 | 24 000 | 36 000 |
| Office Computers | 8 000 | 5 600 | 2 400 |
| | 68 000 | 29 600 | 38 400 |

The following transactions took place during the year ended 31 August 2012:

1 On 31 January 2012, equipment purchased on 1 April 2009, at a cost of $28 000, was sold for $10 000. Payment was received by cheque.

2 On 1 February 2012, new equipment was purchased at a cost of $35 000.

3 On 20 March 2012, office computers were purchased for $600.

Stavros has the following depreciation policy:

Equipment is depreciated at the rate of 20% per annum using the straight-line method.

Office computers are depreciated at the rate of 25% per annum using the diminishing (reducing) balance method.

A full year's depreciation is charged on equipment and office computers in the year of purchase.

No depreciation is charged on equipment in the year of sale.

**REQUIRED**

**(a)** **(i)** Explain the term depreciation.

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**(ii)** State **two** causes of depreciation.

1 ......................................................................................................................

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

**(b)** State **one** advantage of using the straight-line method of depreciation.

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**(c)** Prepare the following ledger accounts for the year ended 31 August 2012:

**(i)** Provision for depreciation of equipment account

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**(ii)** Equipment disposal account

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**(d)** Complete the following balance sheet (extract) for the non-current assets on 31 August 2012.

| Non-current assets | Cost | Accumulated depreciation | NBV |
|---|---|---|---|
| | $ | $ | $ |
| Equipment | | | |
| Office Computers | | | |
| | | | |

[6]

**[Total: 20]**

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**3** Sandar Manufacturing makes a single product.

The following balances were extracted from the books at the end of the financial year on 30 September 2012:

| | $ |
|---|---|
| Inventory at 1 October 2011: | |
| Raw materials | 17 500 |
| Work in progress | 24 000 |
| Finished goods | 50 000 |
| | |
| Purchases of raw materials | 82 600 |
| Carriage | 12 000 |
| Production wages | 75 000 |
| Office wages | 35 000 |
| Sundry office expenses | 14 500 |
| Production manager's salary | 20 500 |
| Factory rent, rates and power | 18 400 |
| Royalties | 9 000 |
| General factory expenses | 15 200 |
| Premises maintenance | 40 000 |
| Factory machinery (at cost) | 120 000 |
| Factory machinery – provision for depreciation | 70 000 |
| | |
| Inventory at 30 September 2012: | |
| Raw materials | 16 300 |
| Work in progress | 29 000 |
| Finished goods | 46 000 |

Additional information at 30 September 2012:

1 60% of the carriage relates to raw materials and 40% to goods sold.

2 General factory expenses owing $400.

3 70% of the maintenance relates to the factory premises and 30% to the office premises.

4 Factory machinery is depreciated at the rate of 15% per annum using the diminishing (reducing) balance method.

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**REQUIRED**

**(a)** Prepare the manufacturing account for the year ended 30 September 2012. Clearly label the prime cost and cost of production.

Sandar Manufacturing

Manufacturing Account for the year ended 30 September 2012

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**(b)** Explain the term direct cost.

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**(c)** Give **one** example of a direct cost from the balances on page 7.

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**[Total: 20]**

4 The trial balance of Maya, after the calculation of the gross profit, was as follows:

Maya
Trial Balance at 30 September 2012

| | Dr | Cr |
|---|---|---|
| | $ | $ |
| Gross profit | | 120 000 |
| Sundry expenses | 57 000 | |
| Non-current assets (cost) | 400 000 | |
| Non-current assets (provision for depreciation) | | 82 000 |
| Trade receivables | 55 000 | |
| Trade payables | | 85 000 |
| Inventory at 30 September 2012 | 125 000 | |
| Cash | 5 000 | |
| Bank loan (repayable 31 October 2012) | | 35 000 |
| Capital | | 320 000 |
| | 642 000 | 642 000 |

Additional information for the year ended 30 September 2012:

1 Mark-up on cost of sales, 25%.
2 Depreciation for the year on non-current assets, $15 000.

**REQUIRED**

**(a)** Calculate the following for the year ended 30 September 2012:

**(i)** Revenue (sales)

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**(ii)** Net profit/sales percentage

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**(iii)** Net profit/capital percentage

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**(iv)** Quick ratio (acid test)

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**(b)** Explain to Maya why the quick ratio (acid test) is a better measure of liquidity than the working capital ratio (current ratio).

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**(c)** Comment upon the adequacy of Maya's cash for the next three months. Give **one** reason for your comment.

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Reason

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**(d)** Suggest **three** ways in which Maya might increase the cash in the business.

1 .......................................................................................................................

2 .......................................................................................................................

3 ................................................................................................................. [3]

**[Total: 20]**

5 Maria is in business as a retailer. The following balances were extracted from her books on 30 September 2012.

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| | $ | |
|---|---|---|
| Capital at 1 October 2011 | 180 000 | |
| Drawings | 21 000 | |
| Land and buildings at cost | 150 000 | |
| Fixtures and fittings at cost | 28 000 | |
| Computer equipment at cost | 40 000 | |
| Provisions for depreciation: | | |
| Land and buildings | 10 000 | |
| Fixtures and fittings | 19 000 | |
| Computer equipment | 12 000 | |
| 8% Bank loan repayable 31 December 2020 | 50 000 | |
| Loan interest paid | 2 000 | |
| Bank | 14 070 | Dr |
| Trade receivables | 60 000 | |
| Trade payables | 31 000 | |
| Provision for doubtful debts | 6 400 | |
| Revenue | 365 000 | |
| Purchases | 135 000 | |
| Goods returned by customers | 8 900 | |
| Purchase returns | 4 250 | |
| Inventory at 1 October 2011 | 33 500 | |
| Delivery expenses | 18 630 | |
| Computer repairs expenses | 19 150 | |
| General running expenses | 31 600 | |
| Salaries and wages | 86 700 | |
| Marketing costs | 14 000 | |
| Discount allowed | 22 400 | |
| Discount received | 7 300 | |

Additional information

1 Inventory at 30 September 2012 was valued at $36 450.

2 An invoice for a credit purchase of goods, $7500, had been misplaced in December and no entries had been recorded in the books.

3 The purchase of fixtures and fittings, $4000, had been included in the general running expenses.

4 At 30 September 2012 computer repair expenses, $1700, were accrued and salaries and wages were prepaid, $5200.

5 The 8% bank loan was received on 1 January 2012.

6 Depreciation is to be charged on all non-current assets owned at the end of the year, as follows:

(i) Buildings at the rate of 2% per annum using the straight-line method. No depreciation is charged on land. The land was valued at cost, $50 000.

(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.

7 A provision for doubtful debts is to be maintained on trade receivables. Debts up to 3 months old at the rate of 4%, debts over 3 months old at the rate of 8%. One-quarter of the trade receivables are over 3 months old.

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**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2012. [22]

**(b)** Prepare the balance sheet at 30 September 2012. [18]

**[Total: 40]**

**Answer Question 5 on the following pages.**

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