Cambridge O Level

Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE NAME

CENTRE NUMBER | CANDIDATE NUMBER

2157793206

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 **October/November 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 **18** printed pages and **2** blank pages.

DC (HB (PK)) 81929/5

CAMBRIDGE
International Examinations

1 Maria had the following assets and liabilities on 1 May 2014.

	$
Inventory	1950
Amount payable – Midland Telecoms	400
Bank	550 Dr
5% Bank loan (repayable 30 April 2018)	2500
Fixtures and fittings	1500

REQUIRED

(a) Calculate the following.

(i) Owner's capital

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....[1]

(ii) Capital employed

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The following related to the purchase of telephone services for the three months to 31 July 2014.

31 May	Paid Midland Telecoms' balance on 1 May 2014 by cheque.
26 June	Received a telephone bill from Midland Telecoms $1200.
15 July	Paid telephone bill received on 26 June by cheque less 2% cash discount.
31 July	Prepared an income statement for the three months to 31 July 2014. It was estimated that $130 was owing.

REQUIRED

(b) Prepare the following ledger accounts for the three months to 31 July 2014.

Midland Telecoms account

Date	Details	$	Date	Details	$

[5]

Telephone expenses account

Date	Details	$	Date	Details	$

[4]

(c) Name and explain the accounting concept applied in estimating the telephone expenses owing on 31 July 2014.

Accounting concept

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Explanation ....

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....[3]

The following were some of the transactions which took place in July.

5 July	Purchased inventory on credit.
10 July	Goods returned by a credit customer.
20 July	Paid wages in cash.
25 July	Disposed of fixtures and fittings on credit.

REQUIRED

(d) Complete the following table for the above transactions naming the source document prepared by Maria and the book of prime entry used. The first item has been completed as an example.

	Source document	Book of prime entry
5 July	*Purchase invoice*	*Purchases journal*
10 July		
20 July		
25 July		

[6]

[Total: 20]

2 Ajib commenced business on 1 October 2014 delivering parcels to customers' homes. He purchased a motor van on that date, the details are as follows.

Purchase price	$9600
Life of motor van	3 years
Residual value	$1200

Ajib is undecided whether to use the straight-line method or diminishing (reducing) balance method to depreciate the motor van.

If Ajib uses the diminishing (reducing) balance method the annual rate of depreciation charged would be 50%.

REQUIRED

(a) Explain the term depreciation.

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....[2]

(b) Complete the following table to show the depreciation to be charged for the years ended 30 September 2015, 2016 and 2017 using the straight-line method and the diminishing (reducing) balance method.

For the year ended	Straight-line method $	Diminishing (reducing) balance method $
30 September 2015		
30 September 2016		
30 September 2017		

[6]

(c) State **one** advantage of Ajib using the straight-line method when depreciating the motor van.

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....[1]

(d) State **one** advantage of Ajib using the diminishing (reducing) balance method when depreciating the motor van.

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....[1]

Ajib is considering:

Proposal 1 Charging the total purchase price of the motor van to the 2015 income statement.

Proposal 2 Using the diminishing (reducing) balance method to charge depreciation on the motor van in 2015, and then to change to the straight line method for 2016 and 2017.

REQUIRED

(e) Name and explain which accounting concept would **not** be complied with if Ajib implemented his proposals.

Proposal 1

Accounting concept ....

Explanation ....

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Proposal 2

Accounting concept ....

Explanation ....

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[6]

Ajib also incurred the following expenditure.

1 Delivery of motor van from manufacturer
2 Fuel for motor van
3 Signwriting his business name on the motor van
4 Motor van insurance

REQUIRED

(f) State whether each of the items above is capital expenditure or revenue expenditure.

1 ....

2 ....

3 ....

4 ....
[4]

[Total: 20]

3 Basir is the owner of the Korner Café. He does not maintain full double entry books, but has provided the following information for the year ended 30 September 2014.

Bank account

	$		$
Balance b/d	4000	Rent of café	5500
Takings banked	43200	Payments to credit suppliers	17800
		Operating expenses	13600
		Fixtures and fittings	450
		Bank loan interest	250
		Balance c/d	9600
	47200		47200
Balance b/d	9600		

Additional information

1 All takings were in cash and were banked on the same day with the exception of:

	$
Staff wages	14900
Drawings	8000
Cash purchases	950

2 Balances at:

	1 October 2013	30 September 2014
	$	$
Trade payables	1150	1430
Inventory	350	720
Rent of café prepaid	500	–
Rent of café accrued	–	1000
7% Bank loan	5000	5000
Bank loan interest accrued	–	100
Fixtures and fittings (at valuation)	2250	2200

REQUIRED

(a) State **two** advantages of maintaining full double entry records.

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2 ....

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(b) Calculate the total purchases for the year ended 30 September 2014.

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(c) Calculate the revenue for the year ended 30 September 2014.

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(d) Prepare the income statement for the year ended 30 September 2014.

Basir's Korner Café
Income Statement for the year ended 30 September 2014

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[Total: 20]

Question 4 is on the next page.

4 The following information relates to the business of Lili.

	$
Revenue	200 000
Inventory 1 October 2013	15 500
Inventory 30 September 2014	24 500
Rate of inventory turnover	8 times
Net profit/sales	7%

REQUIRED

(a) Calculate the following.

	Workings	Answer
cost of sales		
purchases		
percentage gross profit to sales		
expenses		
profit for the year		

[14]

Lili's inventory of $24 500 needs to be adjusted for the following.

1 5 items costing $10 each had been omitted from the inventory.
2 10 items costing $25 each were damaged and could only be sold for $15 each.
3 4 items were included in the inventory at the list price of $300 each, having been marked up by 50%.
4 1 item costing $20 was recorded in error in the inventory as $200.

REQUIRED

(b) Complete the following table showing the effect that **each** adjustment will have upon the inventory valuation at 30 September 2014. The first item has been completed as an example.

Adjustment	Effect on inventory value		Value $
	increase	decrease	
1	✓		*50*
2			
3			
4			

[6]

[Total: 20]

5 Darius and Edgar are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2. Interest on capital is allowed at the rate of 5% per annum. Edgar is entitled to a salary of $12 000 per annum. The following balances were extracted from the books on 31 July 2014.

	$	
Leasehold buildings (cost)	75 000	
Motor vehicles (cost)	40 000	
Fixtures and fittings (cost)	25 000	
Provisions for depreciation:		
Leasehold buildings	18 000	
Motor vehicles	10 000	
Fixtures and fittings	15 000	
Trade payables	55 900	
Trade receivables	39 500	
Provision for doubtful debts	1 900	
8% Bank loan (repayable 31 March 2015)	40 000	
Bank interest paid	1 600	
Bank	31 400	Dr
Capital accounts:		
Darius	40 000	
Edgar	40 000	
Current accounts at 1 August 2013:		
Darius	500	Cr
Edgar	900	Cr
Drawings:		
Darius	12 000	
Edgar	12 000	
Purchases	148 300	
Revenue	256 000	
Returns inwards	5 200	
Inventory at 1 August 2013	25 800	
Heat and light	7 600	
Other operating expenses	6 350	
Wages and salaries	28 950	
Motor vehicle expenses	11 000	
Rent receivable	3 500	
Rent payable	12 000	

Additional information at 31 July 2014

1 Inventory was valued at $34 100.

2 Other operating expenses prepaid $1800.

3 Rent receivable of $1500 was outstanding.

4 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
   (i) an appropriate amount is to be charged on the leasehold buildings which are held on a 25 year lease
   (ii) motor vehicles at the rate of 30% per annum using the diminishing (reducing) balance method
   (iii) fixtures and fittings at the rate of 10% per annum using the straight-line method.

5 Trade receivables of $4500 are irrecoverable. The provision for doubtful debts is to be maintained at 4%.

6 On 31 January 2014 the partners had agreed to allow Edgar to increase his capital by $20 000. Edgar paid a cheque into the partnership bank account on that date.

REQUIRED

(a) Prepare the income statement and appropriation account for the year ended 31 July 2014.

Darius and Edgar
Income Statement and Appropriation Account for the year ended 31 July 2014

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(b) Prepare the current accounts for the year ended 31 July 2014.

Current accounts

Details	Darius $	Edgar $	Details	Darius $	Edgar $

[4]

(c) Prepare the statement of financial position at 31 July 2014.

Darius and Edgar
Statement of Financial Position at 31 July 2014

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[Total: 40]

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