

CANDIDATE
NAME

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CENTRE
NUMBER

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CANDIDATE
NUMBER

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PRINCIPLES OF ACCOUNTS

Paper 2

7110/21

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 **21** printed pages and **3** blank pages.

1 Akma received the following bank statement on 30 April 2014:

Date	Details	Debit \$	Credit \$	Balance \$
1 April	Balance			614 Dr
2 April	Cheque – Stanning	88		702 Dr
10 April	Cash receipt		1204	502 Cr
12 April	Cheque – Chong	640		138 Dr
18 April	Paying in – Trinity Stores		780	642 Cr
20 April	Cheque – Pang	94		548 Cr
22 April	Charges	16		532 Cr
25 April	MDA Electricity – S.O.	104		428 Cr
28 April	Dividend receipt		41	469 Cr

Akma compared the bank statement with her cash book.

REQUIRED

(a) Bring the cash book of Akma up to date. Balance the cash book and bring down the balance.

Cash Book (bank columns)

		\$			\$
8 April	Sales	1204	1 April	Balance b/d	614
18 April	Trinity Stores	780	2 April	Stanning	88
23 April	Xain	73	8 April	Chong	640
24 April	Li Ye	37	23 April	Zaine	59
.....			27 April	Pang	94
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[5]

(b) Prepare the bank reconciliation statement at 30 April 2014.

Bank Reconciliation Statement at 30 April 2014

	\$	\$
Balance as per bank statement		469
Plus		
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Less		
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Balance as per cash book		

[4]

(c) State the meaning of the accounting abbreviation S.O.

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.....[1]

On 1 April, Trinity Stores owed Akma \$800. During the month of April, Akma recorded the following transactions with Trinity Stores.

- 8 April Akma supplied goods to Trinity Stores with a list price of \$900, less 20% trade discount.
- 10 April Trinity Stores returned goods supplied by Akma on 8 April with a list price of \$100.
- 18 April Trinity Stores paid the balance due on 1 April less 2½% cash discount.

REQUIRED

(d) Prepare the account of Trinity Stores in the books of Akma. Balance the account and bring down the balance.

Trinity Stores account

Date	Details	\$	Date	Details	\$

[6]

(e) Name the document that Akma would issue to Trinity Stores on 10 April.

.....[1]

(f) State **two** reasons why Akma might give Trinity Stores trade discount.

- 1
-
- 2
-[2]

[Total: 19]

2 Ghani is preparing his financial statements. He provided the following information.

1 April 2013	Balances b/d	Insurance	\$500 Dr
		Commission receivable	\$250 Cr

Cash book entries 1 April 2013 to 31 March 2014:

Insurance paid by cheque	\$4000
Commission received by cheque	\$1200

On 31 March 2014:

- 1 Insurance of \$150 was prepaid
- 2 Commission receivable of \$200 was due to Ghani.

REQUIRED

(a) Prepare the following ledger accounts, for the year ended 31 March 2014, showing the transfer to the income statement. Balance the accounts and bring down the balances.

Insurance account

Date	Details	\$	Date	Details	\$

Commission receivable account

Date	Details	\$	Date	Details	\$

[8]

On reviewing his purchases account, Ghani found the following errors.

- 1 Goods purchased for cash, \$450, had **not** been recorded in the books.
- 2 Goods purchased on credit from C Maxley, \$950, had been recorded in the books as \$590.
- 3 A purchase of a motor vehicle, \$6000, had been recorded in the purchases account.
- 4 Goods purchased from Y Li, \$820, had been credited to the purchases account and debited to Y Li's account.

REQUIRED

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

Journal

	Dr \$	Cr \$
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[6]

- (c) Complete the table below naming the type of error and the effect on the gross profit of correcting the error. The first item has been completed as an example.

		Type of error	Effect on gross profit
1	Goods purchased for cash, \$450, had not been recorded in the books.	<i>Omission</i>	<i>Decrease \$450</i>
2	Goods purchased on credit from C Maxley, \$950, had been recorded in the books as \$590.		
3	A purchase of a motor vehicle, \$6000, had been recorded in the purchases account.		
4	Goods purchased from Y Li, \$820, had been credited to the purchases account and debited to Y Li's account.		

[6]

[Total: 20]

- 3 The Millennium Social Club provides a meeting place for members. The club also runs a café for the sale of refreshments.

The treasurer of the Millennium Social Club does not maintain a full set of double entry records, but has produced the following information for the year ended 30 April 2014.

Receipts and Payments Account for the year ended 30 April 2014

	\$		\$
Receipts		Payments	
Balance b/d	2 250	General expenses	7 600
Subscriptions	5 800	Rent	4 000
Café takings	41 000	Payments to café suppliers	12 400
Donations	3 100	Wages and employment taxes of café manager	14 000
		Heat and light	1 000
		Bank loan	2 800
		Purchase of equipment and fixtures	700
		Balance c/d	<u>9 650</u>
	<u>52 150</u>		<u>52 150</u>
Balance b/d	9 650		

Additional information

- 1 Balances at:

	1 May 2013	30 April 2014
	\$	\$
Subscriptions in advance	750	400
Subscriptions in arrears	—	600
Trade payables for café supplies	1 250	1 100
Inventory of café supplies	930	790
Heat and light due	520	720
Equipment and fixtures (at valuation)	11 200	10 100
8% Bank loan	10 000	?
Café manager's wages and employment taxes due	—	?

- 2 The café manager’s wages and employment taxes for the month of April 2014 were outstanding.

In April 2014 she had worked a total of 180 hours.

- 160 hours were paid at \$6 per hour
- 20 hours were paid at time and a half

Employee’s tax and social security of \$240 would be deducted from the gross pay.
The Millennium Social Club would pay 10% of the café manager’s gross pay as an employer’s contribution to social security.

- 3 The 8% bank loan repayment included the interest due for the year.
- 4 Half of the heat and light relates to the café.
- 5 Half of the equipment and fixtures are used in the café.

REQUIRED

- (a) Calculate the café manager’s net pay for April 2014.

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.....[3]

4 Demetris is a trader, buying and selling goods on credit. The following information was available on 31 March 2014.

	\$
Revenue	300 000
Inventory 31 March 2014	50 000
Purchases	170 000
Capital	100 000
Bank	5 000 Dr
Trade payables	60 000
Trade receivables	11 000
Gross profit/sales	20%

REQUIRED

(a) Calculate the:

(i) Cost of goods sold.

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(ii) Inventory at 1 April 2013.

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(b) Suggest **two** possible effects of holding too much inventory.

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(c) Calculate, to **two** decimal places, the:

(i) Working capital ratio (current ratio)

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..... [3]

(ii) Quick ratio (acid test ratio)

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..... [3]

(d) Comment upon the sufficiency of the working capital ratio (current ratio).

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..... [2]

During the year ended 31 March 2014, Demetris took the following actions.

- 1 Repaid a \$40 000 long term bank loan.
- 2 Purchased \$20 000 of non-current assets on credit.
- 3 Sold inventory for \$20 000 on credit (cost \$15 000).

REQUIRED

- (e) Complete the following table showing the effect on the current assets, current liabilities and the working capital ratio (current ratio) for each of the actions **1 to 3** above. The first item has been completed as an example.

	Current assets	Current liabilities	Working capital ratio (current ratio)
1 Repaid a \$40 000 long term bank loan.	<i>Decreased \$40 000</i>	<i>No effect</i>	<i>Decreased</i>
2 Purchased \$20 000 of non-current assets on credit.			
3 Sold inventory for \$20 000 on credit (cost \$15 000).			

[6]

[Total: 21]

Question 5 is on the next page.

- 5 Chan and Fong are in partnership sharing profits and losses in the ratio 2:1. Interest is allowed on capital at the rate of 5% per annum and is charged on drawings at the rate of 5% per annum. Fong receives a salary of \$10 000 per annum. The following balances were extracted from the books on 30 April 2014.

	\$
Revenue	480 500
Inventory at 1 May 2013	47 700
Purchases	209 000
Returns from customers	11 800
Returns to suppliers	10 500
Land and buildings (cost)	250 000
Motor vehicles (cost)	45 000
Fixtures and fittings (cost)	28 000
Provisions for depreciation:	
Motor vehicles	25 000
Fixtures and fittings	12 000
Office expenses	36 500
Motor vehicle expenses	13 600
Selling expenses	30 800
Wages and salaries	80 000
Heat and light	4 750
Bank loan interest paid	9 000
Capital accounts:	
Chan	60 000
Fong	40 000
Current accounts:	
Chan	1 500 Cr
Fong	4 000 Cr
Drawings:	
Chan	6 000
Fong	10 000
8% Loan repayable 30 March 2016	200 000
Trade receivables	55 000
Provision for doubtful debts	2 100
Trade payables	36 050
Bank	34 500 Dr

Additional information

- 1 Inventory at 30 April 2014, \$38 350.
- 2 The motor vehicle expenses are to be apportioned one quarter to collecting goods for resale and three quarters to delivery of goods to customers.
- 3 At 30 April 2014:
 - (i) Heat and light, \$750, was accrued
 - (ii) Office expenses, \$4000, were prepaid.
- 4 Half of Fong's \$10 000 salary had been paid to him and posted to the wages and salaries account.
- 5 Fixtures and fittings costing \$2000 purchased by cheque on 20 April 2014 had not been recorded in the books.
- 6 Depreciation is to be charged on all non-current assets owned at the end of the year:
 - (i) Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
 - (ii) Fixtures and fittings at the rate of 10% using the straight-line method.
- 7 Trade receivables contains a debt of \$7500, which is considered irrecoverable. The provision for doubtful debts is to be maintained at 6%.

Question 5(a) is on the next page.

(b) Prepare the current accounts for the year ended 30 April 2014.

Current accounts

Details	Chan \$	Fong \$	Details	Chan \$	Fong \$

[4]

(c) Prepare the statement of financial position at 30 April 2014.

Chan and Fong
Statement of Financial Position at 30 April 2014

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