

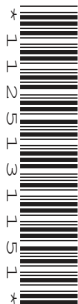
CANDIDATE
NAME

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NUMBER

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PRINCIPLES OF ACCOUNTS

7110/22

Paper 2

May/June 2017

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.

1 Chung is a trader who buys and sells on cash and credit terms. He provided the following information for April 2017.

- April 1 Chung owed Delun, a credit supplier, \$1500.
- 10 Chung purchased goods on credit from Delun, list price \$1400, less 20% trade discount.
- 15 Chung returned to Delun some of the goods purchased on 10 April, list price \$200.
- 23 Chung paid the balance owed to Delun at 1 April by cheque and was allowed 2% cash discount.

REQUIRED

(a) Prepare the account of Delun in the ledger of Chung for April 2017. Balance the account and bring down the balance on 1 May 2017.

Delun account

Date	Details	\$	Date	Details	\$

[5]

(b) State the sub-division of Chung’s ledger which would contain the account of Delun.

.....[1]

(c) Name the document that was issued by Delun to Chung on the following dates.

April 10 Chung purchased goods on credit from Delun.

Document

April 15 Chung returned to Delun some of the goods purchased on 10 April.

Document [2]

(d) Name the document which Delun may issue to Chung on 30 April 2017.

..... [1]

(e) Complete the table to state the effect of **each** of the following transactions made by Chung in April 2017. Where there is no effect write 'No effect'. The first transaction has been completed as an example.

Transaction	Assets \$	Liabilities \$	Capital \$
Purchased goods on credit at a cost of \$500	+500	+500	No effect
Sold goods on credit for \$700 (cost \$400)			
Paid Yang, a credit supplier, \$2050 in full settlement of a debt of \$2200			
Purchased goods, \$130, and paid in cash			

[9]

(f) State **two** reasons why book-keeping records are maintained.

1

.....

2

..... [2]

[Total: 20]

On 1 April 2016 the balance on the provision for doubtful debts account was \$1900.

Umar maintains a provision for doubtful debts at 5%.

REQUIRED

- (c) Prepare the provision for doubtful debts account for the year ended 31 March 2017. Balance the account and bring down the balance on 1 April 2017.

Provision for doubtful debts account

Date	Details	\$	Date	Details	\$

[4]

- (d) Name **one** accounting concept or principle that supports the use of a provision for doubtful debts.

.....[1]

On 15 April 2017 Umar was advised that Horner, a credit customer who owed \$1250, was bankrupt. Umar received a cheque for \$500 in final settlement. The balance was written off as irrecoverable.

REQUIRED

- (e) Prepare the journal entry made by Umar to record the bankruptcy of Horner. A narrative is required.

General journal

	Dr	Cr
	\$	\$

[4]

[Total: 20]

- 3 Aishah and Bolin had been sole traders for many years. On 1 May 2016 they formed a partnership combining their assets and liabilities.

Each partner brought the following assets and liabilities into the new partnership.

	Aishah	Bolin
	\$	\$
Assets		
Goodwill	20 000	
Motor vehicle	8 000	
Fixtures and fittings		7 500
Inventory	9 000	4 500
Trade receivables	6 700	5 200
Bank	7 100	
Liabilities		
Trade payables	4 000	2 150
Bank overdraft		3 750

The partnership agreement states:

- 1 Goodwill will be **removed** from the books of the new partnership.
- 2 There will be **no** interest paid on capital.
- 3 Interest will be charged on drawings (excluding partnership salaries) at the rate of 6%.
- 4 Bolin will receive a salary of \$12 000 per annum.
- 5 Profits and losses will be shared between Aishah and Bolin in the ratio 3 : 2.

(e) State **two** disadvantages to Aishah, other than having to share profit, of forming a partnership.

1

.....

2

..... [2]

[Total: 20]

- 4 Irfan’s accounting year ends on 30 April. The following information is available for the years ended 30 April 2015, 2016 and 2017.

	2015	2016	2017
	\$	\$	\$
Revenue	128 000	155 000	200 000
Cost of sales	96 000	124 000	164 000
Opening inventory	10 200	13 800	11 000
Expenses	27 500	23 000	22 000
Capital	50 000	50 000	50 000
Bank loan (repayable May 2020)	40 000	30 000	20 000
Gross profit margin	25%	20%	?
Rate of inventory turnover	8 times	10 times	?
Return on capital employed (ROCE)	5%	10%	?

Additional information

Inventory on 30 April 2017 was valued at \$9500.

REQUIRED

- (a) Calculate the following ratios at 30 April 2017.

- (i) Gross profit margin

.....

 [2]

- (ii) Rate of inventory turnover

.....

 [2]

(iii) Return on capital employed (ROCE)

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..... [2]

(b) (i) Suggest **two** possible reasons for the change in the gross profit margin over the 3 years.

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

(ii) Suggest **two** possible reasons for the change in the rate of inventory turnover over the 3 years.

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

(iii) Suggest **two** possible reasons for the change in the return on capital employed (ROCE) over the 3 years.

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

Irfan is considering ways in which he might improve his percentage return on capital employed (ROCE) in the following year. He is considering the following proposals:

- 1 Introduce additional capital of \$5000.
- 2 Sell non-current assets at book value, \$15 000, saving \$1500 in depreciation.
- 3 Give customers cash discount for prompt payment.
- 4 Convert \$20 000 of bank loan into a bank overdraft at the same rate of interest.

REQUIRED

(c) Complete the following table, by placing a tick (✓) in the appropriate box, to show the effect of **each** proposal on the profit for the year and the return on capital employed (ROCE).

The first item has been completed as an example.

Proposal	Profit for the year			Return on capital employed (ROCE)		
	increase	decrease	no effect	increase	decrease	no effect
1			✓		✓	
2						
3						
4						

[6]

Irfan has also considered improving his profit for the year by:

Proposal 5 Changing the method of depreciating his non-current assets to reduce the annual depreciation charge

Proposal 6 **Not** adjusting his financial statements for wages owing at the year end

REQUIRED

(d) Name the accounting concept or principle which would **not** be complied with if Irfan implemented his proposals.

Proposal 5

Proposal 6 [2]

[Total: 20]

5 The following balances were extracted from the books of Wang Manufacturing on 30 April 2017.

	\$
Inventory at 1 May 2016	
Raw materials	18 200
Work in progress	23 000
Finished goods	37 000
Purchases of raw materials	210 000
Purchases of finished goods	135 000
Manufacturing wages	102 000
Direct factory expenses	8 800
Factory management salaries	36 500
Buildings maintenance	31 000
Administration salaries	71 400
Revenue	755 000
Rent	24 000
Rent receivable	3 300
Insurance	9 800
Selling expenses	18 500
Other operating expenses	32 300
Factory machinery (cost)	120 000
Office fixtures and fittings (cost)	18 000
Provisions for depreciation	
Factory machinery	30 000
Office fixtures and fittings	12 500
Provision for doubtful debts	3 500
Capital	150 000
Drawings	45 000
Trade receivables	63 100
Trade payables	59 000
Bank	9 700 Debit

Additional information at 30 April 2017

- 1 Inventory

	\$
Raw materials	16 500
Work in progress	18 100
Finished goods	41 500
- 2 Manufacturing wages of \$2500 are owing.
- 3 Rent and insurance are to be apportioned 50% to the factory and 50% to administration.
- 4 \$25 000 of the buildings maintenance relates to the factory.
- 5 Selling expenses of \$1400 were prepaid.
- 6 Office fixtures and fittings costing \$5000 had been purchased by cheque. No entries had been made in the books.
- 7 Depreciation is to be charged as follows:
 - (i) Factory machinery at 25% per annum using the diminishing (reducing) balance method
 - (ii) Office fixtures and fittings at 10% using the straight-line method.
- 8 A debt of \$3100 was considered irrecoverable. The provision for doubtful debts is to be maintained at 5%.

(c) Prepare the statement of financial position at 30 April 2017.

Wang Manufacturing
Statement of Financial Position at 30 April 2017

	\$	\$	\$
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[10]

[Total: 40]

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