



Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE
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PRINCIPLES OF ACCOUNTS

7110/23

Paper 2

May/June 2018

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 The following ledger account appeared in the books of Kusum on 31 March 2018.

Smith account			
		\$	\$
March	1	Balance b/d	200
	5	Sales (credit)	700
	14	Bank (refund)	60
			960
April	1	Balance b/d	660
March	7	Returns	150
	21	Bank	144
		Discount	6
	31	Balance c/d	960

REQUIRED

(a) Name the:

- (i) subdivision of Kusum’s ledger which would contain the account of Smith
[1]
- (ii) document that Kusum would issue to Smith on 5 March
[1]
- (iii) document that Kusum would send to Smith on 14 March
[1]
- (iv) book of prime entry in which the transaction of 7 March would be recorded
[1]
- (v) type of discount given to Smith on 21 March
[1]
- (vi) section in Kusum’s statement of financial position that would contain the account of Smith.
[1]

(b) Calculate the percentage discount taken by Smith on 21 March.

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.....[2]

The following information is available for the month of April 2018.

			\$
April	1	Balances	
		Drawings account	6400
		Capital account	9000
	7	Kusum paid \$2500 into the business bank account from her personal bank account.	
	9	Kusum cashed a cheque from the business bank account for \$500 for her personal use.	
	15	The annual insurance premium, \$750, was paid by cheque. This included \$150 for the insurance of Kusum's home.	
	30	Kusum prepared the financial statements. The profit for the year was \$3700.	

REQUIRED

(c) Prepare the following accounts for the month of April 2018.

Complete the appropriate year-end transfer from the drawings account.

Balance the capital account and bring down the balance on 1 May 2018.

(i) Drawings account

Date	Details	\$	Date	Details	\$

[5]

(ii) Capital account

Date	Details	\$	Date	Details	\$

[5]

- 2 Sandbury Products owned two motor vehicles on 1 April 2017: Motor vehicle A and Motor vehicle B.

The following information relates to the motor vehicles for the year ended 31 March 2018.

		\$
1 April 2017	Balances	
	Motor vehicles account (at cost)	30 000
	Provision for depreciation motor vehicles account	10 800
30 June 2017	Sale of Motor vehicle B	
	Cost	14 000
	Accumulated depreciation	5 040
	Sold on credit to X Garage	9 500
1 July 2017	Purchase of Motor vehicle C	
	Cost	18 000

Additional information

- 1 Motor vehicles are depreciated at the rate of 20% per annum using the diminishing (reducing) balance method.
- 2 No depreciation is charged in the year of disposal.
- 3 A full year's depreciation is charged in the year of purchase.

REQUIRED

- (a) Explain the meaning of the term 'depreciation'.

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.....[2]

- (b) State **two** causes of depreciation of a **motor vehicle**.

1.....

2..... [2]

(c) Calculate the profit or loss on the sale of Motor vehicle B.

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.....[1]

(d) Prepare journal entries to record the sale of Motor vehicle B. Narratives are **not** required.

General Journal

	Debit \$	Credit \$
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[6]

(e) Calculate the depreciation to be charged on motor vehicles for the year ended 31 March 2018.

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[3]

(f) Complete the table by placing a tick (✓) to show whether **each** of the following is capital expenditure, a capital receipt, revenue expenditure or a revenue receipt.

	capital expenditure	capital receipt	revenue expenditure	revenue receipt
proceeds from sale of Motor vehicle B				
purchase of Motor vehicle C				
insurance for Motor vehicle C				

[3]

Sandbury Products owns other types of non-current assets.

REQUIRED

(g) State the method which would be **most appropriate** for depreciating **each** of the following.

(i) Buildings

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(ii) Loose tools

.....

(iii) Computers

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[3]

[Total: 20]

- 3 Komile commenced business on 1 April 2017. She did not keep a set of double entry records but the following information is available.

Komile started business with a motor vehicle, \$5000, and inventory, \$8000. Half of the inventory was purchased using a bank loan repayable in 2022.

REQUIRED

- (a) Calculate Komile's capital at 1 April 2017.

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.....[2]

On 31 March 2018 the assets and liabilities of Komile's business were:

	\$
Motor vehicle (at valuation)	4 200
Inventory	9 500
Bank loan repayable in 2022	4 000
Other payables	1 400
Other receivables	600
Trade receivables	11 400
Trade payables	10 100
Bank	1 500 Debit

During the year ended 31 March 2018 Komile took \$3500 as drawings.

REQUIRED

(c) Calculate the profit for the year ended 31 March 2018.

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.....[3]

(d) State **three** advantages to Komile of keeping a set of double entry records.

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.....[3]

In April 2018 Komile employed Chandra to work in her business. He worked a total of 185 hours in the month.

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

Deductions of \$220 were made from Chandra's gross pay.
Komile paid \$150 in employers' contributions to the government.

REQUIRED

(e) Give **one** example for **each** of the following deductions made from an employee's wages.

(i) Statutory deduction
.....[1]

(ii) Non-statutory deduction
.....[1]

(f) Calculate:

(i) Chandra's net pay for April 2018.

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(ii) the total cost to Komile of employing Chandra in April 2018.

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.....[2]

[Total: 20]

- 4 The following summarised income statement was prepared by Kannan for the year ended 30 April 2018.

	\$
Revenue	120 000
Cost of sales	<u>(70 000)</u>
Gross profit	50 000
Expenses	(14 000)
Depreciation	<u>(8 000)</u>
Profit for the year	<u>28 000</u>

Additional information at 30 April 2018

	\$
Kannan's capital	150 000
Bank loan repayable October 2018	100 000
Bank loan repayable December 2025	80 000

After the preparation of the summarised income statement the following items were discovered.

- 1 Kannan has been advised that he may have been undercharged by \$2000 for carriage inwards.
- 2 The closing inventory was valued at its resale value of \$15 000. The cost was \$9000.
- 3 Only expenses paid during the year were included in the income statement. At 30 April 2018 expenses prepaid were \$1800 and expenses accrued were \$700.
- 4 Depreciation was charged at the rate of 10% on cost for the year. In all previous years the rate of 25% on cost had been used.

REQUIRED

- (a) Name the accounting principle or concept that has **not** been applied in **each** case.

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2.....

3.....

4.....

[4]

(b) Calculate the revised value of the following, after correcting items 1 to 4.

(i) Gross profit

.....

 [3]

(ii) Profit for the year

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 [3]

(c) Calculate the following ratios to **two** decimal places. Use the revised profit values calculated in (b). The previous year's percentages are shown in the last column.

	Workings	31 March 2018	31 March 2017
Gross profit/sales (Gross profit margin)			30.75%
Profit for the year/sales (Net profit margin)			12.35%
Percentage return on capital employed			2.05%

[6]

(d) Analyse the change in **each** ratio over the two years.

Gross profit/sales (Gross profit margin)

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Profit for the year/sales (Net profit margin)

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Percentage return on capital employed

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[4]

[Total: 20]

PLEASE TURN OVER

- 5 Athula and Bhulo are in partnership sharing profits and losses in the ratio 3:2 respectively. Interest is allowed on capital at the rate of 5% per annum and is charged on drawings (excluding partner's salary) at the rate of 8%. A salary is paid to Bhulo of \$7500 per annum.

The following balances were extracted from the books on 30 April 2018.

	\$
Capital accounts	
Athula	60 000
Bhulo	40 000
Current accounts	
Athula	3 800 Debit
Bhulo	1 800 Credit
Drawings (excluding partner's salary)	
Athula	12 000
Bhulo	7 000
5% Loan from Athula (repayable 2020)	40 000
8% Bank loan (repayable 2024)	80 000
Bank loan interest paid	4 000
Trade receivables	42 000
Trade payables	30 820
Bank	9 000 Debit
Provision for doubtful debts	2 100
Land and buildings (cost)	150 000
Equipment (cost)	60 000
Office fixtures (cost)	27 000
Provisions for depreciation on 1 May 2017:	
Land and buildings	12 000
Equipment	25 000
Office fixtures	17 000
Revenue	590 000
Inventory at 1 May 2017	42 000
Purchases	295 000
Returns from customers	15 800
Returns to suppliers	19 500
Carriage inwards	8 820
Wages and salaries	91 000
Advertising	30 000
General expenses	109 000
Equipment maintenance	11 800

Additional information

- Inventory at 30 April 2018 was valued at \$51 000.
- At 30 April 2018
 - Advertising, \$1400, was prepaid
 - Equipment maintenance, \$2500, was accrued
 - The interest on the loan from Athula was accrued
 - Some bank loan interest is outstanding.
- The partner's salary had been paid to Bhulo. This had been posted to the wages and salaries account.
- Office fixtures costing \$6000 had been purchased by cheque on 20 March 2018. No entries had been recorded in the books.

(b) Prepare the current accounts for the year ended 30 April 2018. Balance the accounts and bring down the balances on 1 May 2018.

Date	Details	Athula	Bhulo	Date	Details	Athula	Bhulo
		\$	\$			\$	\$

[7]

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