

Centre Number	Candidate Number	Name
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

**PRINCIPLES OF ACCOUNTS**

**7110/02**

Paper 2

**Specimen paper for examination from 2008**

**2 hours**

Candidates answer on the Question Paper  
Additional Materials: Multi-column Accounting 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, graphs, or rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **ALL** the questions.  
Question 6 should be answered in the booklet or on multi-column accounting paper. If you use multi-column accounting paper attach your answer to the question to this booklet.  
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	
6	
<b>Total</b>	

This document consists of **20** printed pages.

- 1 Jack Trail recently started using computerised accounts software. He printed out the following account:

Marianne Hindle account

2006		Dr \$	Cr \$	Balance \$
14 June	Purchases		950	950
4 July	Bank	931		19
4 July	Discount	19		0
12 July	Purchases		460	460

**REQUIRED**

- (a) Identify **two** documents that Jack Trail would have used as a source of information in preparing the above account. Tick the appropriate boxes.

Document	✓
Cheque	
Credit note	
Debit note	
Invoice	

[2]

- (b) State the type of discount recorded in the ledger account on 4 July.

..... [1]

- (c) List the **two** books of original entry that would be used by Jack Trail if the transactions with Marianne Hindle had been recorded in a manual book-keeping system.

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

(d) Identify the heading under which Marianne Hindle's account would be recorded in Jack Trail's balance sheet at 12 July. Tick the appropriate box.

<b>Heading</b>	√
Fixed assets	
Current assets	
Current liabilities	
Long-term liabilities	

[1]

(e) State **two** benefits Jack Trail gains from using Information and Communications Technology (ICT) in book-keeping.

1 .....

.....

2 .....

..... [2]

**[Total: 8]**



- (b) Prepare the bank reconciliation statement to reconcile the adjusted cash book balance with the bank statement balance at 31 July 2006.

Sally Major  
Bank Reconciliation Statement at 31 July 2006

.....

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.....

.....

..... [4]

[Total: 9]











- 4 The following information was extracted from the books of Jack Lightbourne for the year ended 31 July 2006.

	\$
Sales	174 600
Opening stock	6 350
Purchases	89 150
Closing stock	8 200
Sundry expenses	69 840
Drawings	6 984
Current assets	24 600
Current liabilities	16 400

### REQUIRED

- (a) Calculate, to one decimal place, the following ratios. Show your workings in the box provided.

		Workings	
(i)	Gross profit/sales		%
(ii)	Net profit/sales		%
(iii)	Rate of stock turnover		

<b>(iv)</b>	Working capital (current) ratio		
<b>(v)</b>	Quick ratio (acid test)		

[10]

Jack Lightbourne's main competitor generates gross profit/sales of 100% and net profit/sales of 15%.

**REQUIRED**

- (b)** Suggest how Jack could improve his ratios for gross profit/sales and net profit/sales to a competitive level.

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..... [3]

Jack Lightbourne is concerned that his business is not performing as well as those of his competitors. He is considering changing some of the figures in the final accounts so the results look better. He suggested the following:

- 1 Stock should be valued at sales price because that is how much it will bring into the business.
- 2 An existing provision for doubtful debts based on past experience should be eliminated. Bad debts should only be written off when clearly a customer will not pay.

**REQUIRED**

(c) (i) State the bases on which stock and trade debtors should be valued.

Stock .....

.....

Trade debtors .....

..... [2]

(ii) Identify and explain the accounting concept which should be applied when valuing stock and debtors.

Concept .....

Explanation .....

..... [3]

(d) Explain **two** reasons why an accountant would consider it is professionally unethical to improve the financial results of Jack Lightbourne by making the adjustments suggested.

1 .....

.....

.....

2 .....

.....

.....

..... [4]

**[Total: 22]**

5 The capital and reserves of Salvadore Ltd are as follows:

Salvadore Ltd  
Balance Sheet (extract) at 31 July 2006

<b>Capital and Reserves</b>	Authorised	Called-up
	\$	\$
Preference shares of \$1 each	100 000	40 000
Ordinary shares of \$0.50 each	<u>100 000</u>	<u>50 000</u>
	<u>200 000</u>	90 000
General reserve		80 000
Profit and loss account		43 900

**REQUIRED**

(a) Explain the difference between authorised and called-up share capital.

.....

.....

.....

..... [2]

(b) Explain **two** differences between preference shares and ordinary shares.

1 .....

.....

2 .....

..... [2]

(c) Explain why a company uses a general reserve.

.....

.....

..... [1]



**Answer Question 6 in this booklet or on separate multi-column accounting paper.**

For  
Examiner's  
Use

- 6** Alison Brown is a manufacturer. The following balances were extracted from the books on 31 July 2006.

Alison Brown  
Trial Balance at 31 July 2006

	\$
Stock at 1 August 2005	
Raw materials	34 760
Work in progress	4 820
Finished goods	8 300
Purchases of raw materials	396 300
Purchases of finished goods	11 340
Carriage on purchases of raw materials	1 200
Sales	798 200
Sales returns	6 400
Direct factory wages	198 600
Factory manager's salary	18 600
Office salaries	43 330
Sundry factory expenses	24 360
Sundry office expenses	18 950
Distribution costs	23 460
Land and buildings (cost)	40 000
Factory plant and machinery (cost)	96 000
Office equipment (cost)	17 400
Provision for depreciation of factory plant and machinery	42 000
Provision for depreciation of office equipment	6 000
Debtors	84 350
Bank (Dr)	2 050
Creditors	64 160
Capital	92 160
Drawings	12 300

Additional information:

- 1 Stock at 31 July 2006 was valued as follows:

	\$
Raw materials	47 290
Work in progress	4 670
Finished goods	9 200

- 2 At 31 July 2006:

- (i) Direct factory wages, \$16 550, were accrued.
- (ii) Office salaries, \$1860, were prepaid.

- 3 Depreciation is to be charged on factory plant and machinery at 25% per annum using the diminishing (reducing) balance method.

- 4 Office equipment is to be depreciated using the straight-line method at 20% on cost.

Office equipment, \$15 000, was purchased on 1 August 2003. Additional office equipment, \$2400, was purchased on 30 April 2006. No other changes in fixed assets occurred in the year ended 31 July 2006. Depreciation is calculated for the time assets are held in the business.

- 5 A provision for doubtful debts is to be created at 2 % of debtors.
- 6 Alison withdrew finished goods, \$960, from the business during the year. This has not been included in the books.

### REQUIRED

- (a) Prepare the manufacturing account of Alison Brown for the year ended 31 July 2007. Show clearly cost of raw materials consumed, prime cost and cost of production. [11]
- (b) Prepare the trading and profit and loss accounts of Alison Brown for the year ended 1 July 2007. [13]
- (c) Prepare the balance sheet of Alison Brown at 1 July 2007. [16]

**[Total: 40]**









<b>Question</b>	<b>Syllabus Reference</b>	<b>A: Knowledge with understanding</b>	<b>B: Analysis</b>	<b>C: Evaluation</b>	<b>Total Marks</b>
<b>1(a)</b>	1.3, 1.7	2			
<b>1(b)</b>	1.4, 1.7	1			
<b>1(c)</b>	1.4	2			
<b>1(d)</b>	3.2	1			
<b>1(e)</b>	1.1	2			8
<b>2(a)</b>	1.5		5		
<b>2(b)</b>	1.5		4		9
<b>3(a)</b>	2.4, 4.4	5			
<b>3(b)</b>	2.4, 4.4	3			
<b>3(c)</b>	4.4	3			
<b>3(d)</b>	5.1, 5.2		6		
<b>3(e)</b>	4.1		5		
<b>3(f)</b>	4.4		8		30
<b>4(a)</b>	6.1			10	
<b>4(b)</b>	6.1			3	
<b>4(c)(i)</b>	3.2	2			
<b>4(c)(ii)</b>	6.2	3			
<b>4(d)</b>	6.2			4	22
<b>5(a)</b>	4.5	2			
<b>5(b)</b>	4.5	2			
<b>5(c)</b>	4.5	1			
<b>5(d)</b>	4.2, 4.5			4	
<b>5(e)</b>	6.2			2	11
<b>6(a)</b>	4.6		11		
<b>6(b)</b>	4.6		13		
<b>6(c)</b>	4.6		16		40
<b>Total</b>		29	68	23	120

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