



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Ordinary Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER



**PRINCIPLES OF ACCOUNTS**

**7110/21**

Paper 2

**May/June 2013**

**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 a soft pencil for any diagrams or graphs.  
Do not use staples, paper clips, highlighters, 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 **12** printed pages and **4** lined pages.





- (g) Indicate by placing a tick (✓) which transactions are capital expenditure and which are revenue expenditure.

	Transaction	Capital expenditure	Revenue expenditure
(i)	Purchase of fixtures and fittings		
(ii)	Installing and testing an air conditioning system		
(iii)	Insurance of shop premises		

[3]

[Total: 22]

2 The following are some of the transactions carried out by Tay, a retailer, during April 2013:

- (i) Paid insurance \$470 by cheque.
- (ii) Sold goods on credit to J Dins, cost price \$6400 plus 80% mark up.
- (iii) Paid amount owing to P Lee by cheque, \$1800, less 4% cash discount.
- (iv) Returned damaged goods costing \$590 to R & R Ltd.

**REQUIRED**

- (a) Complete the table below for transactions (ii) to (iv). Transaction (i) has been completed as an example.

Transaction	Source document	Accounts debited and amount	Accounts credited and amount	Effect on profit for year
(i)	<i>Cheque counterfoil</i>	<i>Insurance \$470</i>	<i>Bank \$470</i>	<i>-\$470</i>
(ii)				
(iii)				
(iv)				

[12]

- (b) Explain why Tay received cash discount from P Lee.

.....[2]

Tay supplied the following information for year ended 30 April:

1	2013		
	Revenue	\$	60 000
	Cost of sales		48 000
2	2012		
	Revenue		58 000
	Gross profit to sales ratio		33.3%

**REQUIRED**

(c) Calculate Tay's gross profit to sales ratio for the year ended 30 April 2013.

.....

.....

.....[2]

(d) Compare the gross profit to sales ratio in 2012 with your answer in (c) and suggest **three** possible causes for any changes that may have taken place.

1 .....

.....

2 .....

.....

3 .....

.....[6]

(e) Make **two** suggestions on how Tay may use the gross profit to sales ratio.

1 .....

.....

2 .....

.....[4]

**[Total: 26]**



3 The following balances were extracted from the books of Alex Penn on 31 March 2016

	\$
Equipment (net book value)	40 000
Delivery vans (net book value)	22 000
Inventory	10 670
Trade receivables	11 200
Other receivables	4 130
Bank overdraft	4 200
Trade payables	8 800
6% Bank loan (repayable 23 May 2016)	15 000
Capital 31 March 2013	70 000
Drawings	10 000

During the year Penn had purchased non-current assets to the value of \$20 000.

**REQUIRED**

(a) Calculate the working capital.

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.....[2]

(b) Calculate the following to two decimal places:

(i) Working capital ratio (current ratio)

.....

.....

.....

.....[2]

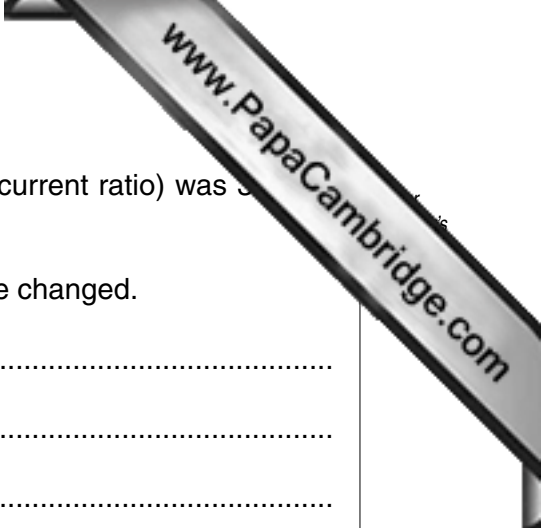
(ii) Quick ratio (acid test ratio)

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.....[2]



For the year ended 31 March 2012 Penn's working capital ratio (current ratio) was 3:1 and his quick ratio (acid test ratio) was 1:1.

(c) Suggest **three** reasons why Penn's liquidity position may have changed.

- 1 .....
  - .....
  - .....
  - 2 .....
  - .....
  - .....
  - 3 .....
  - .....
  - .....
- [6]

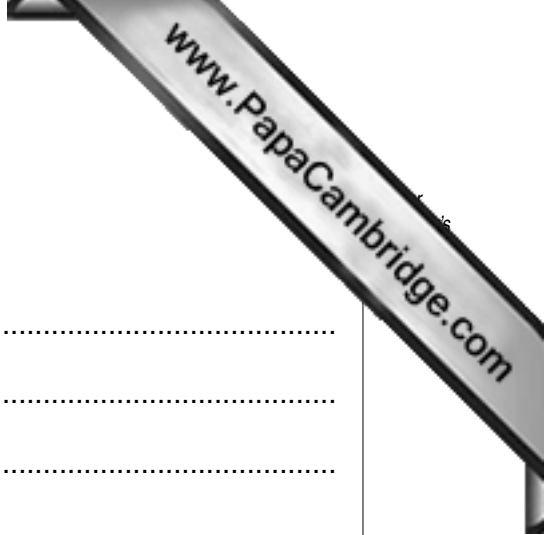
(d) Suggest **two** courses of action Penn could take to improve his liquidity.

- 1 .....
  - .....
  - .....
  - 2 .....
  - .....
  - .....
- [6]

**[Total: 18]**







(c) Prepare the disposal account.

Disposal account

.....  
.....  
.....  
.....  
.....  
.....  
.....[5]

(d) State **two** other methods of depreciation.

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

**[Total: 14]**

- 5 The following balances were extracted from the books of Paul Lee, a manufacturer, as at 31 May 2013.

	\$	
Capital	220 000	
Drawings	10 800	
Factory machinery (cost)	210 000	
Office equipment (cost)	60 000	
Provision for depreciation:		
Factory machinery	75 600	
Office equipment	21 600	
Inventory at 1 June 2012:		
Raw materials	33 000	
Work in progress	36 000	
Finished goods	66 444	
Purchases of raw materials	133 687	
Revenue	426 088	
Transport costs	29 400	
Wages and salaries	140 600	
Rent and rates	28 000	
Indirect factory expenses	18 423	
Lighting and heating	23 140	
Selling and administration expenses	10 742	
Bad debts	1 000	
Loan interest paid	2 000	
Trade payables	43 690	
Trade receivables	34 400	
Bank	658	Cr
6% Loan (repayable on 23 June 2018)	50 000	

Additional information:

- 1 Inventory values at 31 May 2013:

	\$
Raw materials	38 000
Work in progress	42 600
Finished goods	71 200

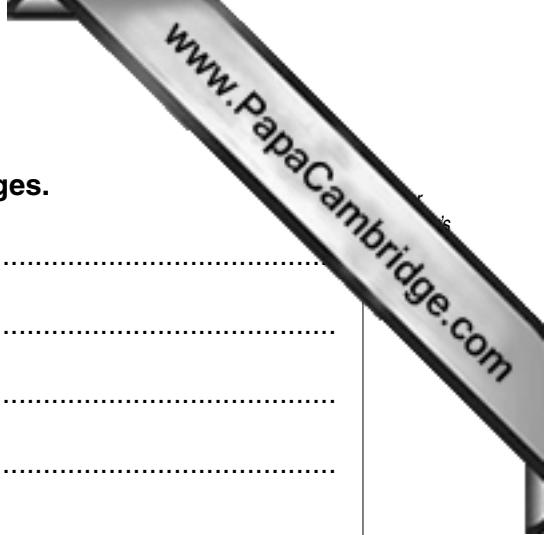
- 2 Transport costs are allocated 65% to raw materials and 35% to delivery of finished goods.
- 3 Wages and salaries include \$56 000 for production managers' salaries. The remaining balance is split 40% direct labour, 35% indirect labour and 25% office salaries.
- 4 Rent and rates are apportioned factory 80% and office 20%.
- 5 Lighting and heating are apportioned factory 70% and office 30%.  
On 31 May 2013 these were in arrears by \$860.
- 6 On 31 May 2013 selling and administration expenses had been prepaid by \$230.
- 7 A provision for doubtful debts, representing 4% of trade receivables, is to be created.
- 8 Factory machinery is depreciated at 20% per annum using the diminishing (reducing) balance method. Office equipment is depreciated at 12% per annum on cost.

**REQUIRED**

- (a) Prepare the manufacturing account for the year ended 31 May 2013. [10]
- (b) Prepare the income statement for the year ended 31 May 2013. [10]
- (c) Prepare the balance sheet (statement of financial position) at 31 May 2013. [12]

**[Total: 40]**

Answer Question 5 on the following pages.



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