

CANDIDATE
NAME

--

CENTRE
NUMBER

--	--	--	--	--

CANDIDATE
NUMBER

--	--	--	--



PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 2015

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 **16** printed pages and **4** blank pages.

- 1 The following balances were taken from the books of Krul Limited on 1 July 2015.

	\$
Carston Garages account	200 credit
Motor van expenses account	3200 debit

The following transactions took place in July 2015.

- July 12 Paid Carston Garages their outstanding balance by cheque, deducting 3% cash discount
 July 15 Purchased fuel for the motor van, on credit, from Carston Garages, \$120
 July 23 Paid motor van repairs by cheque, \$200
 July 26 Purchased new motor van tyres from Carston Garages on credit, \$400, less 15% trade discount

Additional information

- 1 Krul Limited prepared financial statements on 31 July 2015.
 2 Motor van expenses, \$125, were accrued on 31 July 2015.

REQUIRED

- (a) Prepare the Carston Garages account for the year ended 31 July 2015. Balance the account and bring down the balance on 1 August 2015.

Carston Garages account

Date	Details	\$	Date	Details	\$

[5]

- (b) Prepare the motor van expenses account for the year ended 31 July 2015. Make the transfer to the income statement. Balance the account and bring down the balance on 1 August 2015.

Motor van expenses account

Date	Details	\$	Date	Details	\$

[5]

- (c) Name the subdivision of the ledger containing **each** of the following accounts.

Account	Subdivision of the ledger
Sales	
T Wong (credit customer)	

[2]

- (d) Explain **each** of the following accounting terms.

(i) Revenue expenditure

.....

 [2]

(ii) Capital receipt

.....

 [2]

- (e) Indicate by placing a tick (✓) whether **each** of the following transactions is revenue expenditure, revenue receipt, capital expenditure or capital receipt.

Transaction	Revenue expenditure	Revenue receipt	Capital expenditure	Capital receipt
Sale of motor van				
Purchase new motor van tyres				
Cash discount received				
Purchase a new motor van				

[4]

[Total: 20]

BLANK PAGE

- 2 Martino's trial balance at 30 September 2015 did not agree and a suspense account was opened.

The following errors were discovered.

- 1 The total of the purchases journal had been undercast by \$950.
- 2 Discount received, \$85, had been debited to the discount received account.
- 3 A payment of rent, \$750, had been correctly entered in the cash book, but recorded in the rent account as \$570.
- 4 A purchase of office fixtures, \$2300, had been recorded in the general expenses account.

REQUIRED

- (a) Show the entries in the general journal to correct items 1 to 4. Narratives are **not** required.

General Journal

	Debit \$	Credit \$

[8]

- (b) Prepare the suspense account at 30 September 2015 showing the original difference on the trial balance.

Suspense account

Date	Details	\$	Date	Details	\$

[4]

- (c) Complete the following table to show the effect on the profit for the year of **correcting each** error.

The first item has been completed as an example.

Error		Increase/Decrease/ No effect	Amount \$
1	The total of the purchases journal had been undercast by \$950.	<i>Decrease</i>	<i>950</i>
2	Discount received, \$85, had been debited to the discount received account.		
3	A payment of rent, \$750, had been correctly entered in the cash book, but recorded in the rent account as \$570.		
4	A purchase of office fixtures, \$2300, had been recorded in the general expenses account.		

[6]

- (d) Explain why an error of commission would **not** be revealed by the trial balance.

.....

.....

.....

.....

.....

.....

.....

..... [2]

[Total: 20]
[Turn over

3 Aina and Barry are in partnership. The partnership agreement states the following:

Interest is charged on drawings at the rate of 6% per annum

Interest is paid on capital at the rate of 4% per annum

Interest is paid on partners' loans at the rate of 5% per annum

Barry receives a salary of \$8000 per annum

Profits and losses are shared $\frac{3}{5}$ Aina and $\frac{2}{5}$ Barry.

The following information was available on 1 May 2014.

		\$	
Capital account	Aina	50 000	
	Barry	20 000	
Current account	Aina	800	debit
	Barry	6 500	credit
Loan to partnership	Barry	40 000	

Additional information for the year ended 30 April 2015

1 Barry increased his capital in the partnership by \$20 000 on 1 November 2014.

2 Drawings during the year were:

	\$
Aina	7 500
Barry	10 000

3 Profit for the year before loan interest was \$19 800.

- (b) Prepare the current accounts of the partners for the year ended 30 April 2015. Balance the accounts and bring down the balances on 1 May 2015.

Current accounts

Details	Aina \$	Barry \$	Details	Aina \$	Barry \$

[6]

- (c) State **two** advantages of a partnership.

- 1
- 2

[2]

Additional information

Aina and Barry are considering ways to improve the profit for the year of the business. They suggest the following changes.

- 1 Remove the provision for doubtful debts from the income statement.
- 2 Increase the value of the premises from cost to the current market value.
- 3 Reduce the depreciation rate on computers from 30% to 10% per annum.
- 4 Record expenses paid without adjustment for amounts owing.

REQUIRED

(d) Name the accounting principle/concept which would **not** be complied with if Aina and Barry implemented the suggestions.

Suggestions		Accounting principle/concept
1	Remove the provision for doubtful debts from the income statement.	
2	Increase the value of the premises from cost to the current market value.	
3	Reduce the depreciation rate on computers from 30% to 10% per annum.	
4	Record expenses paid without adjustment for amounts owing.	

[4]

[Total: 20]

4 Galenia buys and sells goods on credit. The following information was available on 30 September 2015.

	\$	
Inventory 1 October 2014	11 000	
Inventory 30 September 2015	37 000	
Cost of goods sold	90 000	
Profit for the year	18 900	
Trade receivables	14 200	
Trade payables	27 000	
Bank	2 800	debit
Mark up	40%	

REQUIRED

(a) Calculate the following for the year ended 30 September 2015.

(i) Revenue

.....

.....

.....

.....

.....

..... [2]

(ii) Purchases

.....

.....

.....

.....

.....

..... [2]

(iii) Expenses for the year

.....

.....

.....

.....

.....

..... [2]

(b) Calculate the following ratios to **two** decimal places. Comparative figures for the previous year are shown in the last column.

	Workings	30 September 2015	30 September 2014
Profit margin (profit for the year to revenue)			12.13%
Rate of inventory turnover			2.00 times
Working capital ratio (current ratio)			2.60:1
Quick ratio (acid test ratio)			1.10:1

[8]

(c) Comment on the performance of Galenia’s business over the two years under the following headings.

(i) Inventory turnover

.....

.....

.....

.....

.....

.....

.....

.....

.....[3]

(ii) Ability to pay trade payables

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....[3]

[Total: 20]

[Turn over

5 Cheng is a sole trader. The following balances were extracted from his books on 30 September 2015.

	\$	
Revenue	315 000	
Purchases	165 000	
Returns outwards	2 600	
Wages and salaries	34 800	
Motor vehicle expenses	17 200	
Commission receivable	12 500	
Rent	15 000	
Provision for doubtful debts	1 000	
6% Bank loan (repayable 30 June 2019)	30 000	
Bank interest paid	1 200	
Inventory at 1 October 2014	36 800	
Heat and light	6 500	
Other operating expenses	7 100	
Cash and bank	19 500	debit
Trade payables	25 000	
Trade receivables	34 000	
Capital	15 000	
Drawings	18 000	
Motor vehicles (cost)	50 000	
Fixtures and fittings (cost)	24 000	
Provision for depreciation:		
Motor vehicles	10 000	
Fixtures and fittings	18 000	

Additional information at 30 September 2015

- 1 On 26 September 2015 goods had been purchased for \$3000 cash. The transaction had not been recorded in the books.
- 2 Inventory was valued at \$29 980.
- 3 The rent included a payment of \$6000 for the six months ending 31 December 2015.
- 4 Other operating expenses accrued \$1100.
- 5 Commission receivable of \$2500 was outstanding.
- 6 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - (i) Motor vehicles at the rate of 20% per annum using the diminishing (reducing) balance method
 - (ii) Fixtures and fittings at the rate of 15% per annum, using the straight-line method.
- 7 Trade receivables of \$2000 are irrecoverable. The provision for doubtful debts is to be maintained at 5% on the remaining trade receivables.

	\$	\$	\$
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

[18]

[Total: 40]

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.