

Cambridge International Examinations

Cambridge Ordinary Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

7064694488

PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 2016

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.

International Examinations

1 Gabi is in business buying and selling goods on credit. The following details relate to the account of her customer, Kacela, for the month of September 2016.

		\$
September 1	Opening balance owed by Kacela to Gabi	900
9	Invoice sent to Kacela	730
14	Credit note sent to Kacela	25
30	Cheque received and banked by Gabi	860
30	Discount allowed by Gabi	40

REQUIRED

(a) Prepare the account of Kacela in the books of Gabi. Balance the account and bring down the balance on 1 October.

Kacela account

Date	Details	\$ Date	Details	\$

(b)	Name the sub-division of Gabi's ledger which will contain the account of Kacela.
	[1]

[6]

On 30 September 2016 the balance on the bank account in the books of Gabi was \$450 debit.

Gabi received a bank statement for September 2016. The differences between the bank account and the bank statement were as follows:

- 1 A cheque for \$50 paid to J Simpson had not been presented for payment.
- 2 Bank charges, \$230, had been charged to Gabi's account but were not recorded in Gabi's books.
- 3 The bank had received a dividend payment, \$120, which was not recorded in Gabi's books.
- 4 The cheque received from Kacela, \$860, was not recorded on the bank statement.

REQUIRED

(c) Update the bank account of Gabi. Balance the account and bring down the updated balance on 1 October.

Bank account

Date	Details	\$	Date	Details	\$
2016					
Sept 30	Balance b/d	450			

[3]

(d) Prepare the bank reconciliation statement on 1 October 2016. Start with the updated bank account balance.

Bank Reconciliation Statement at 1 October 2016

\$

Baland	ce on bank account	
Plus		
Less		
Baland	ce on bank statement	[4

[4]

(e) Complete the table for the transactions shown. Name the source document and the book of prime entry used by Gabi. The first item has been completed as an example.

	Source document	Book of prime entry
Sold goods on credit	Sales invoice	Sales journal
Paid wages in cash		
Purchased office fixtures on credit		
Goods returned by a credit customer		

[6]

[Total: 20]

2 Valda prepares a monthly control account for her sales ledger.

The following information relates to the month of August 2016.

Sales ledger control account balances 1 August 2016 Sales ledger control account balances 1 September 2016	Debit \$ 18410 ?	Credit \$ 720 580
Cheques received Dishonoured cheque (included in cheques received) Cash sales Discount allowed Bad debt written off Credit sales Returns inwards	\$ 40 500 800 8 950 970 2 750 39 600 3 900	

REQUIRED

(a) Prepare the sales ledger control account for the month of August 2016. Balance the account and bring down the balances on 1 September.

Sales ledger control account

Date	Details	\$ Date	Details	\$

[8]

(b) State two reasons for preparing control accounts.						
	1					
	2					
			[2]			
Valo	da later found the following errors in her books.					
1	A cheque received from Fatin, \$930, had been correctly enter been credited to the account of Martin.	red in the cash	book but had			
2	The total of the discount allowed column in the cash book, \$9 discount received account.	970, had been	credited to the			
3	Returns inwards of \$390 had been correctly recorded in Ann's acas \$930 in the returns inwards account.	ccount, but had	been recorded			
RE	QUIRED					
(c)	Name the type of error that Valda made by crediting Martin's ac	count.				
			[1]			
(d)	Prepare the general journal entries to correct errors 1, 2 and 3.	Narratives are	not required.			
	General journal					
		Debit \$	Credit \$			

Valda is considering the use of Information and Communications Technology (ICT) to prepare her books of account.

REQUIRED

(e)	State two benefits to Valda of using Information and Communications Technology (ICT).				
	1				
	2				
		[2]			

[Total: 20]

3 The following is an extract from the wages book of JT Manufacturing for August 2016 showing the wages paid to **factory indirect labour**.

Wages book

Employee	Hours worked	Rate per hour	Tax \$	Employee's social security contribution	Employer's social security contribution	Voluntary contributions	Net pay
Nazim	160	\$5	210	80	120	0	?
Pabla	180	<u>\$6</u>	<u>250</u>	<u>110</u>	<u>150</u>	<u>50</u>	?
Total	340	_	460	190	270	50	

REQUIRED

(a)	Give one example of a voluntary contribution.
	[1]
(b)	Calculate the net pay for:
	Nazim
	[3]
	Pabla
	[3]

(c)	Calculate the total wages cost for factory indirect labour.
	cı

The following balances were extracted from the books of JT Manufacturing for the month of August 2016.

1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Φ.
Inventory at 1 August 2016	\$
Raw materials	3800
Work in progress	7000
Purchases of raw materials	15600
Raw materials returns outward	1200
Rent	9 000
Direct factory expenses	800
Factory direct wages	9350
Factory indirect labour	? (calculated in part(c))
Factory management salaries	14550
Office wages and salaries	32450
Power	4 000
Depreciation on factory machinery	6000
Depreciation on office computers	9 000

Additional information at 31 August 2016

1	Inventory		\$
		Raw materials	5350
		Work in progress	7500

2 Rent and power are to be apportioned: 60% to the factory, 40% to the office.

REQUIRED

(d) Prepare the manufacturing account of JT Manufacturing for the month ended 31 August 2016.

JT Manufacturing Manufacturing Account for the month ended 31 August 2016

\$	\$

[10]

[Total: 20] [Turn over 4 Ng provided the following information for the year ended 30 September 2016.

	\$
Cost of sales	240 000
Trade payables	180 000
Trade receivables	120 000
8% Bank loan (repayable 2024)	30 000
Bank	20000 Credit
Closing inventory	130 000

Gross profit margin 25%

REQUIRED

(a) Calculate the following for the year ended 30 September 2016. Comparative figures for the previous year are shown.

	Year ended 30 September 2016		Year ended 30 September
	Workings	Answer	2015
Revenue			\$220000
Working capital ratio (Current ratio) (to two decimal places)			1.93:1
Quick ratio (acid test ratio) (to two decimal places)			1.12:1

[8]

Comment on the liquidity position of Ng over the two years.
נו

On 31 October 2016 Ng had \$15000 in his business bank account. He is considering ways to further improve his working capital.

REQUIRED

(c) Complete the table showing the effect on the working capital of the following proposals. The first item has been completed as an example.

Proposal	Effect on		
	Current assets	Current liabilities	Working capital
Sell \$15000 non-current assets for cash.	+ \$15000	No effect	+\$15000
Introduce additional capital of \$10000, consisting of \$5000 in cash and \$5000 non-current assets.			
Obtain an additional bank loan for \$30000, repayable in equal instalments over five years.			
Offer trade receivables a cash discount of 10% for quick payment. Credit customers owing \$60 000 will accept this offer.			

[9]

5 Li and Yang are in partnership sharing profits and losses in the ratio 3:2. Interest is allowed on capital at the rate of 4% per annum and is charged on drawings at the rate of 10% per annum. Partners are entitled to annual salaries, Li \$8000 and Yang \$5000.

The following balances were extracted from the books on 30 September 2016.

	\$
Capital accounts	
Li	50 000
Yang	50000
Current accounts	
Li	4300 Credit
Yang	2900 Credit
Drawings	
Li	15000
Yang	9000
Land and buildings (cost)	200 000
Computing equipment (cost)	60 000
Office fixtures (cost)	35 000
Provisions for depreciation	
Land and buildings	22 000
Computing equipment	20 000
Office fixtures	10 000
Provision for doubtful debts	2000
Revenue	625 000
Inventory at 1 October 2015	52600
Purchases	295 000
Returns from customers	15750
Returns to supplier	4850
General expenses	27500
Heat and light	5300
Marketing expenses	41 000
Wages and salaries	153 000
Administration expenses	16800
5% Bank loan (repayable 2021)	120 000
Bank loan interest paid	4000
Trade receivables	69200
Trade payables	62500
Bank	25600 Credit

Additional information

- 1 Inventory at 30 September 2016 was \$57900.
- 2 A sale of goods made on credit on 26 September, \$2800, had not been recorded in the books.
- 3 At 30 September 2016

Marketing expenses, \$1100, were accrued Administration expenses \$250, were prepaid.

- 4 The partners' salaries had been paid to Li and Yang. These had been posted to the wages and salaries account.
- Office fixtures costing \$5000 and with an accumulated depreciation of \$3000 had been sold for \$2000. A cheque was received on 20 August 2016. No entries had been recorded in the books.
- 6 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:
 - (i) buildings at the rate of 2% per annum. The buildings have a cost of \$100000. No depreciation is charged on land.
 - (ii) computing equipment at the rate of 30% per annum using the diminishing (reducing) balance method.
 - (iii) office fixtures at the rate of 20% per annum using the straight-line method.
- 7 Trade receivables include a debt of \$4000 which is considered irrecoverable. The provision for doubtful debts is to be maintained at 5%.

REQUIRED

(a) Prepare the income statement and appropriation account for the year ended 30 September 2016.

Li and Yang Income Statement and Appropriation Account for the year ended 30 September 2016

\$	\$

\$	\$
•••••	•••••
•••••	•••••
•••••	

(b) Prepare the current accounts for the year ended 30 September 2016. Balance the accounts and bring down the balances on 1 October 2016.

Current accounts

Date	Details	Li	Yang	Date	Details	Li	Yang
		\$	\$			\$	\$

[5]

(c) Prepare the statement of financial position at 30 September 2016.

Li and Yang Statement of Financial Position at 30 September 2016

\$	\$ \$

\$	\$	\$
1	l	l

[16]

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