CAMBRIDGE INTERNATIONAL EXAMINATIONS

Joint Examination for the School Certificate and General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

PAPER 2

7110/2

OCTOBER/NOVEMBER SESSION 2002

1 hour 45 minutes

Additional materials: Answer paper Multi-column accounting paper

TIME 1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided at the top of this page. Answer all questions.

Write your answers in the spaces provided on the guestion paper.

Question 6 should be answered on separate answer paper or multi-column accounting paper. Attach your answer to Question 6 to this booklet.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [] at the end of each question or part question.

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.

FOR EXAMINER'S USE				
1				
2				
3				
4				
5				
6				
TOTAL				

www.PapaCambridge.com 1 The following errors and omissions were discovered after the preparation of a draft and Profit and Loss Account on 30 September 2002.

- The credit sale of goods \$424 to K. Watts had been recorded in all the books as \$242.
- 2. An invoice amount of \$370 from Mubonda Garage for repairs had not been entered in the books.
- 3. Goods bought from A. Smythe for \$700 had been entered in A. Smith's account.
- 4. Purchase of equipment for \$10 000 for use in the business had been debited to the Purchases account.
- 5. Closing stock had been overvalued by \$3000.

Prepare journal entries to correct the above omissions and errors. Narrations are not required:

Journal

Date	Details	Dr. \$	Cr. \$
		*	•
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You may use the rest of this page for workings.

Rubble has provided the following information about his business:

Years	2000 \$	2001 \$
Sales	900 000	840 000
Gross Profit	300 000	210 000
Expenses	150 000	180 000
Net profit	150 000	30 000

					42	
			4		W.D.	
Rub	ble r	nas p	rovided the following information about his	business:	Par	2
	Yea	rs		2000	2001	M
	Ехр	es ss Pi ense profi	s	\$ 900 000 300 000 150 000 150 000	2001 \$ 840 000 210 000 180 000 30 000	
(a)	(i)	Con	pplete each of the following statements:			
		In 2	001, compared to 2000:			
		1.	Gross profit has decreased by \$	and net prof	it has decreased b	ру
		2.	Gross profit as a percentage of sales	has decrease	ed from	%
			to% and net profit as a percei	ntage of sales	has decreased from	m
			% to%.			
		3.	Expenses as a percentage of sales ha	ave increased	from% t	to
					[4	4]
	(ii)		ng your answers from (i), suggest three act profit for 2002.	ctions Rubble co	ould take to improv	/e

Years

		5	.0	1
ble a	also provides the following informat	tion about his stock turnover		S.C.
rs e of s	stock turnover	2000 10 times	2001 8 times irnover.	1
(i)	Explain two possible reasons for	the fall in the rate of stock tu	ırnover.	
				[4]
(ii)	Suggest two reasons why Rubble year.	e should calculate his rate of	stock turnover e	every
				[4]
(iii)	Recommend two courses of action turnover.			

www.PapaCambridge.com 3 Hill and Dale traded separately until 31 December 2001. At this date their Balance were as follows:

Hill	Dale		Hill	Dale
\$	\$		\$	\$
50 000	40 000	Capital	120 000	66 000
35 000	22 000	Loan		20 000
23 000	14 500	Creditors	10 000	5 000
16 000	18 500	Bank		4 000
6 000				
130 000	95 000		130 000	95 000
	\$ 50 000 35 000 23 000 16 000	\$ \$ 50 000 40 000 35 000 22 000 23 000 14 500 18 500 6 000	\$ \$ 50 000 40 000 Capital 35 000 22 000 Loan 23 000 14 500 Creditors 16 000 18 500 Bank 6 000	\$ \$ \$ 120 000 35 000 22 000 Loan 23 000 14 500 Creditors 10 000 16 000 18 500 Bank

The two traders agreed to merge the two businesses and become equal partners as from 1 January 2002. In order to do this it was agreed that:

- The partnership should take over all the assets and liabilities of the two businesses except the buildings belonging to Hill and the loan owed by Dale.
- 2. Goodwill was to be valued at \$15 000 for Hill and \$12 000 for Dale.
- 3. Equipment should be revalued at \$30 000 for Hill and \$25 000 for Dale.
- \$500 should be written off Dale's debtors as bad debts. 4.

(a)

All other items were to be taken over by the partnership of Hill and Dale at 5. their Balance Sheet values.

Draw up the individual capital accounts of each partner showing clearly how the final balances at 1 January 2002 are obtained.

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repare the partnership Balance Sheet of Hill and Dale at 1 January 2002.	
	[5]
ve a brief explanation of the meaning of Goodwill.	

www.papaCambridge.com 4 On 30 September 2002 a schedule of debtors extracted from Stone's sales ledger \$18 100 but the balance on the Sales Ledger Control account was \$19 900.

The following errors were found later.

(a)

- The sales day book had been undercast by \$200. 1.
- 2. A debtor's account had been wrongly balanced as \$500 instead of \$540.
- 3. Goods \$70 returned by a debtor had been debited to his account.
- 4. A discount allowed of \$60 had been recorded in the cash book but not entered in the customer's account.
- 5. A written off bad debt of \$260 had not been entered in the control account.
- 6. Balances totalling \$340 in the purchases ledger had been set off against balances in the sales ledger but no entries had been made in the control accounts.
- A debtor's balance of \$1600 had not been listed in the schedule of debtors. 7.
- 8. \$40 interest charged on a debtor's outstanding account had been recorded in the sales ledger but not in the control account.

Starting with the original total, make the necessary adjustments to the schedule of debtors.
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(b)	Starting with the original balance, prepare a revised Sales Ledger Control accounts and the same starting with the original balance, prepare a revised Sales Ledger Control accounts and the same starting with the original balance, prepare a revised Sales Ledger Control accounts and the same starting with the original balance, prepare a revised Sales Ledger Control accounts and the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with the original balance, prepare as the same starting with	Use
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www.PapaCambridge.com 5 P. Said, a merchant, has the following current assets and current liabilities at 31 De 2001. \$ Current assets: Stock 290 000 **Debtors** 122 000 Cash at bank 18 000 430 000 Current liabilities: Trade creditors 250 000 Accrued expenses 16 000 266 000 Explain and comment on what the figures tell you about P. Said's financial position at 31 December 2001.

Answer Question 6 on separate answer paper or multi-column accounting page 1

Justine is a manufacturer of beauty products. The following balances were extracted in 6 books on 31 December 2001 after the Manufacturing Account had been prepared.

Answer Question 6 on separate answer paper or mu	lti-column accou	unting the Work	
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stine is a manufacturer of beauty products. The following bks on 31 December 2001 after the Manufacturing Accou	ng balances were unt had been prep	extracted for eared.	ambridge.com
	\$	\$	COM
Stocks Raw Materials (31 December 2001)	3 530		
Work in Progress (31 December 2001)	1 450		
Finished Products (1 January 2001)	11 200		
Cost of products manufactured	103 780	107.500	
Sales of finished goods	1 000	137 560	ı
Carriage on sales	1 230 3 410		
Advertising Sales staff's commission	3 4 10 8 970		
Office expenses	11 860		
Bank charges	60		
Plant and machinery	51 410		
Provision for depreciation on Plant and Machinery		9 030	
Trade debtors	13 600		
Trade creditors		5 210	
Provision for doubtful debts (1 January 2001)		310	
Bad debts	460		
Cash in hand	90		
Bank overdraft		1 740	
Capital		60 450	
Drawings	3 250		

The following additional information is available.

- Stock of finished products at 31 December 2001 was valued at \$10 640.
- During the year, Justine took finished products valued at \$600 from the current year's production for personal use. No entries had been made in the books.
- 3. Sales staff's commission outstanding amounted to \$390.
- 4. The provision for doubtful debts is to be adjusted to 5% of debtors.
- 5. \$50 for bank charges had not been recorded in the books.
- (a) Prepare Justine's Trading and Profit and Loss Accounts for the year ended 31 December 2001. [17]

[17]

(b) Prepare the Balance Sheet as at 31 December 2001.

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