

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

October/November 2006

**1 hour 45 minutes**

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 rough working.  
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.  
Question 5 should be answered on pages **13** and **14** or multi-column accounting paper. If you use multi-column accounting paper, attach your answer to Question 5 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	
<b>Total</b>	

1 The following balances were taken from the books of Sanjev Patel on 23 September

	\$	
Rent received		7360 Cr
Justine Stihl		180 Dr

The following transactions took place during the week ended 30 September 2006:

- 27 September Justine Stihl left the country and Sanjev decided to write off the balance on Justine's account as a bad debt.
- 29 September A tenant paid \$980 by cheque to cover his outstanding rent for September and one month's advance rent, \$480, for October.

Sanjev Patel prepared his final accounts on 30 September 2006.

**REQUIRED**

Prepare the following ledger accounts.  
Make any necessary transfers to the Profit and Loss Account and, where necessary, bring down the final balances.

(a) Rent Received account

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..... [4]

(b) Justine Stihl account

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..... [2]

(c) Bad Debts account

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..... [3]

(d) (i) Explain why Sanjev Patel wrote off the balance on Justine Stihl's account as a debt on 27 September 2006. State which accounting concept he applied.

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Accounting concept ..... [3]

(ii) Explain why Sanjev Patel did **not** include all the rent received on 29 September in his Profit and Loss Account for the year ended 30 September 2006. State which accounting concept he applied.

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.....  
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Accounting concept ..... [3]

**[Total: 15]**



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

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

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

**[Total: 12]**

3 Jessica Clarke extracted the following information from her accounts for the year ended 30 September 2006:

	\$
Sales (Turnover)	100 000
Capital	50 000
Stock at 1 October 2005	4 000
Stock at 30 September 2006	8 000
Gross profit/sales	40%
Net profit/sales	10%

**REQUIRED**

(a) Calculate the following for Jessica Clarke for the year ended 30 September 2006:

(i) Cost of sales

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..... [2]

(ii) Purchases

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..... [3]

(iii) Expenses

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..... [2]

(b) Calculate Jessica Clarke's net profit as a percentage of capital for the year ended 30 September 2006.

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..... [2]

(c) Calculate Jessica Clarke's rate of stock turnover for the year ended 30 September 2006.

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..... [3]

(d) Jessica Clark's rate of stock turnover for the year ended 30 September 2006 was significantly lower than that of the previous year. Explain how this has affected the cost of sales.

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..... [2]

(e) Explain **two** disadvantages of holding too much stock.

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

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

[Total: 18]

4 John Regan set up a garage and car sales business on 1 September 2004 with the following assets:

	\$
Land and buildings	120 000
Plant and equipment	60 000
Loose tools	5 000
Stock of motor vehicles	45 000
Stock of car parts	7 000
Cash at bank	1 000

John decided on the following policy for depreciation:

- 1 Land, costing \$70 000, is not to be depreciated.
- 2 Buildings, costing \$50 000, are to be depreciated at 4% per annum on cost using the straight line method.
- 3 Plant and equipment is to be depreciated at 50% per annum using the diminishing (reducing) balance method.
- 4 Loose tools are to be depreciated using the revaluation method.

**REQUIRED**

(a) Explain why John Regan does **not** depreciate **each** of the following:

(i) Land

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..... [2]

(ii) Stock of motor vehicles

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..... [2]

(b) (i) Explain **one** reason why John Regan uses the revaluation method to depreciate loose tools.

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..... [2]

(ii) John Regan purchased additional loose tools costing \$1000 during the year ended 31 August 2005. The tools were revalued at \$4000 on 31 August 2005. Calculate the depreciation for the year.

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..... [2]

(c) Calculate the depreciation for each of the years ended 31 August 2005 and 31 August 2006 for the following:

(i) Buildings

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..... [3]

(ii) Plant and equipment

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..... [4]

- (d) John Regan charges a full year's depreciation in the year of disposal.  
He sold all the plant and equipment for \$12 000 during August 2006.  
Prepare the disposal account on 31 August 2006.

Disposal of Plant and Equipment account

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..... [5]

[Total: 20]

**Question 5 is on the following page.**

**Answer Question 5 in this booklet or on separate multi-column accounting paper.**

- 5 Celia Davidson is in the import/export business. The following balances were extracted from her books on 30 September 2006.

	\$	\$
Sales		306 000
Carriage on sales	28 300	
Purchases	147 600	
Carriage on purchases	12 800	
Stock at 1 October 2005	13 400	
Wages and salaries	51 100	
Rent rates and insurance	6 900	
Advertising costs	11 800	
Motor vehicle expenses	2 700	
Office expenses	17 400	
Provision for doubtful debts		360
Cash at bank	7 140	
Motor vehicles at cost	15 500	
Provision for depreciation of motor vehicles at 1 October 2005		3 100
Debtors	38 000	
Creditors		15 500
Drawings	12 320	
Capital at 1 October 2005		<u>40 000</u>
	<u>364 960</u>	<u>364 960</u>

**Additional information**

- Stock at 30 September 2006 was valued at \$14 100.
- During the year Celia Davidson took goods costing \$1300 for her own use. No entries have been made in the books.
- Depreciation is to be charged on the motor vehicles at 20% per annum using the straight line method.
- Wages and salaries, \$1900, were owing at 30 September 2006.
- Insurance, \$400, was prepaid at 30 September 2006.
- The provision for doubtful debts is to be maintained at 2% of debtors.
- Celia Davidson made a long-term loan, \$5000, at 3% per annum to the business on 1 October 2005. This was included in error in capital. The interest has not been entered in the books.

**REQUIRED**

- (a) Prepare the Trading and Profit and Loss Accounts of Celia Davidson for the year ended 30 September 2006. [19]
- (b) Prepare the Balance Sheet of Celia Davidson as at 30 September 2006. [16]

**[Total: 35]**

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