Cambridge O Level

Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

1125131151

PRINCIPLES OF ACCOUNTS **7110/22**

Paper 2 **May/June 2017**

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 **18** printed pages and **2** blank pages.

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CAMBRIDGE
International Examinations

1 Chung is a trader who buys and sells on cash and credit terms. He provided the following information for April 2017.

April 1 Chung owed Delun, a credit supplier, $1500.

10 Chung purchased goods on credit from Delun, list price $1400, less 20% trade discount.

15 Chung returned to Delun some of the goods purchased on 10 April, list price $200.

23 Chung paid the balance owed to Delun at 1 April by cheque and was allowed 2% cash discount.

REQUIRED

(a) Prepare the account of Delun in the ledger of Chung for April 2017. Balance the account and bring down the balance on 1 May 2017.

Delun account

Date	Details	$	Date	Details	$

[5]

(b) State the sub-division of Chung's ledger which would contain the account of Delun.

....[1]

(c) Name the document that was issued by Delun to Chung on the following dates.

April 10 Chung purchased goods on credit from Delun.

Document ....

April 15 Chung returned to Delun some of the goods purchased on 10 April.

Document ....[2]

(d) Name the document which Delun may issue to Chung on 30 April 2017.

....

[1]

(e) Complete the table to state the effect of **each** of the following transactions made by Chung in April 2017. Where there is no effect write 'No effect'. The first transaction has been completed as an example.

Transaction	Assets $	Liabilities $	Capital $
Purchased goods on credit at a cost of $500	*+500*	*+500*	*No effect*
Sold goods on credit for $700 (cost $400)			
Paid Yang, a credit supplier, $2050 in full settlement of a debt of $2200			
Purchased goods, $130, and paid in cash			

[9]

(f) State **two** reasons why book-keeping records are maintained.

1 ....

....

2 ....

....[2]

[Total: 20]

2 Umar sells goods on credit and maintains a sales ledger control account. The following information is available for the month ended 31 March 2017.

2017			$
March	1	Amount owing by credit customers	36 000
	31	Cheques from credit customers	53 800
		Dishonoured cheque (included in cheques received)	2 080
		Cash sales	4 500
		Credit sales	51 270
		Credit notes issued to customers	1 750
		Discount allowed	950
		Bad debt	1 450

REQUIRED

(a) State **two** benefits of using control accounts.

1 ....

2 ....[2]

(b) Prepare the sales ledger control account for March 2017. Balance the account and bring down the balance on 1 April 2017.

Sales ledger control account

Date	Details	$	Date	Details	$

[9]

On 1 April 2016 the balance on the provision for doubtful debts account was $1900.

Umar maintains a provision for doubtful debts at 5%.

REQUIRED

(c) Prepare the provision for doubtful debts account for the year ended 31 March 2017. Balance the account and bring down the balance on 1 April 2017.

Provision for doubtful debts account

Date	Details	$	Date	Details	$

[4]

(d) Name **one** accounting concept or principle that supports the use of a provision for doubtful debts.

....[1]

On 15 April 2017 Umar was advised that Horner, a credit customer who owed $1250, was bankrupt. Umar received a cheque for $500 in final settlement. The balance was written off as irrecoverable.

REQUIRED

(e) Prepare the journal entry made by Umar to record the bankruptcy of Horner. A narrative **is** required.

General journal

	Dr	Cr
	$	$

[4]

[Total: 20]

3 Aishah and Bolin had been sole traders for many years. On 1 May 2016 they formed a partnership combining their assets and liabilities.

Each partner brought the following assets and liabilities into the new partnership.

	Aishah $	Bolin $
Assets		
Goodwill	20000	
Motor vehicle	8000	
Fixtures and fittings		7500
Inventory	9000	4500
Trade receivables	6700	5200
Bank	7100	
Liabilities		
Trade payables	4000	2150
Bank overdraft		3750

The partnership agreement states:

1 Goodwill will be **removed** from the books of the new partnership.

2 There will be **no** interest paid on capital.

3 Interest will be charged on drawings (excluding partnership salaries) at the rate of 6%.

4 Bolin will receive a salary of $12000 per annum.

5 Profits and losses will be shared between Aishah and Bolin in the ratio 3 : 2.

REQUIRED

(a) Calculate the opening capital of **each** partner.

Aishah

....

....

....

....

....

....

....

....[1]

Bolin

....

....

....

....

....

....

....

....[1]

(b) Prepare the statement of financial position of the new partnership at 1 May 2016.

Aishah and Bolin
Statement of Financial Position at 1 May 2016

	$	$
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[6]

(c) **(i)** Explain the accounting term 'goodwill'.

....

....

....

....[2]

(ii) Give **three** examples of how goodwill may arise.

1 ....

2 ....

3 ....[3]

The following information is available at the end of the first year's trading on 30 April 2017:

	$	
Profit for the year	27 400	
Drawings – Aishah	7 000	
Bolin	15 000	(including partnership salary)

REQUIRED

(d) Prepare the partnership appropriation account for the year ended 30 April 2017.

Aishah and Bolin
Appropriation account for the year ended 30 April 2017

	$	$
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[5]

(e) State **two** disadvantages to Aishah, other than having to share profit, of forming a partnership.

1 ....

....

2 ....

....[2]

[Total: 20]

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4 Irfan's accounting year ends on 30 April. The following information is available for the years ended 30 April 2015, 2016 and 2017.

	2015	2016	2017
	$	$	$
Revenue	128 000	155 000	200 000
Cost of sales	96 000	124 000	164 000
Opening inventory	10 200	13 800	11 000
Expenses	27 500	23 000	22 000
Capital	50 000	50 000	50 000
Bank loan (repayable May 2020)	40 000	30 000	20 000
Gross profit margin	25%	20%	?
Rate of inventory turnover	8 times	10 times	?
Return on capital employed (ROCE)	5%	10%	?

Additional information

Inventory on 30 April 2017 was valued at $9500.

REQUIRED

(a) Calculate the following ratios at 30 April 2017.

(i) Gross profit margin

....

....

....

....[2]

(ii) Rate of inventory turnover

....

....

....

....[2]

(iii) Return on capital employed (ROCE)

....

....

....

....[2]

(b) (i) Suggest **two** possible reasons for the change in the gross profit margin over the 3 years.

1 ....

....

2 ....

....[2]

(ii) Suggest **two** possible reasons for the change in the rate of inventory turnover over the 3 years.

1 ....

....

2 ....

....[2]

(iii) Suggest **two** possible reasons for the change in the return on capital employed (ROCE) over the 3 years.

1 ....

....

2 ....

....[2]

Irfan is considering ways in which he might improve his percentage return on capital employed (ROCE) in the following year. He is considering the following proposals:

1 Introduce additional capital of $5000.

2 Sell non-current assets at book value, $15 000, saving $1500 in depreciation.

3 Give customers cash discount for prompt payment.

4 Convert $20 000 of bank loan into a bank overdraft at the same rate of interest.

REQUIRED

(c) Complete the following table, by placing a tick (✓) in the appropriate box, to show the effect of **each** proposal on the profit for the year and the return on capital employed (ROCE).

The first item has been completed as an example.

Proposal	Profit for the year			Return on capital employed (ROCE)		
	increase	decrease	no effect	increase	decrease	no effect
1			✓		✓	
2						
3						
4						

[6]

Irfan has also considered improving his profit for the year by:

Proposal 5 Changing the method of depreciating his non-current assets to reduce the annual depreciation charge

Proposal 6 **Not** adjusting his financial statements for wages owing at the year end

REQUIRED

(d) Name the accounting concept or principle which would **not** be complied with if Irfan implemented his proposals.

Proposal 5 ....

Proposal 6 ....[2]

[Total: 20]

5 The following balances were extracted from the books of Wang Manufacturing on 30 April 2017.

	$
Inventory at 1 May 2016	
Raw materials	18200
Work in progress	23000
Finished goods	37000
Purchases of raw materials	210000
Purchases of finished goods	135000
Manufacturing wages	102000
Direct factory expenses	8800
Factory management salaries	36500
Buildings maintenance	31000
Administration salaries	71400
Revenue	755000
Rent	24000
Rent receivable	3300
Insurance	9800
Selling expenses	18500
Other operating expenses	32300
Factory machinery (cost)	120000
Office fixtures and fittings (cost)	18000
Provisions for depreciation	
Factory machinery	30000
Office fixtures and fittings	12500
Provision for doubtful debts	3500
Capital	150000
Drawings	45000
Trade receivables	63100
Trade payables	59000
Bank	9700 Debit

Additional information at 30 April 2017

1 Inventory

	$
Raw materials	16500
Work in progress	18100
Finished goods	41500

2 Manufacturing wages of $2500 are owing.

3 Rent and insurance are to be apportioned 50% to the factory and 50% to administration.

4 $25000 of the buildings maintenance relates to the factory.

5 Selling expenses of $1400 were prepaid.

6 Office fixtures and fittings costing $5000 had been purchased by cheque. No entries had been made in the books.

7 Depreciation is to be charged as follows:
(i) Factory machinery at 25% per annum using the diminishing (reducing) balance method
(ii) Office fixtures and fittings at 10% using the straight-line method.

8 A debt of $3100 was considered irrecoverable. The provision for doubtful debts is to be maintained at 5%.

REQUIRED

(a) Prepare the manufacturing account of Wang Manufacturing for the year ended 30 April 2017. Show clearly the prime cost and the cost of production.

Wang Manufacturing
Manufacturing Account for the year ended 30 April 2017

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[15]

(b) Prepare the income statement for the year ended 30 April 2017.

Wang Manufacturing
Income Statement for the year ended 30 April 2017

	$	$

[15]

(c) Prepare the statement of financial position at 30 April 2017.

Wang Manufacturing
Statement of Financial Position at 30 April 2017

	$	$	$

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	$	$	$

[10]

[Total: 40]

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