UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Ordinary Level

CANDIDATE NAME	

CENTRE NUMBER		CANDIDATE NUMBER	

2900653770

PRINCIPLES OF ACCOUNTS **7110/02**

Paper 2 **May/June 2008**

2 hours

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 any diagrams or graphs.
Do not use staples, paper clips, highlighters, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.
Question **5** should be answered on pages **14** and **15** **or** on 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	
Total	

This document consists of **12** printed pages, **2** lined pages and **2** blank pages.

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International Examinations

[Turn over

For Examiner's Use

1 George Gale had the following transactions for the week ended 31 May 2008:

May 25 The balance of $80 cash was transferred to the bank account.

26 Withdrew $860 by cheque for personal use. This represented half the balance at the bank.

27 Cash sales, $900, were made.

A cheque for $450 was also received from Sally Jones in full settlement of a debt of $500. The cheque was paid immediately into the bank. George allowed a discount for early settlement.

28 A bank loan for $2000 was paid into George's business bank account.

29 Paid $3500 by cheque for new fixtures and fittings.

30 George opened a bank deposit account, transferring $600 from cash.

31 Paid wages $100 in cash.

REQUIRED

(a) Complete the three column cash book for George Gale for the week ended 31 May 2008. Use the page opposite. [16]

(b) Distinguish between cash and trade discounts.

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....

....

.... [2]

(c) Identify how **each** of the following would be treated in George Gale's accounts at 31 May 2008. The first item has been completed as an example.

	Asset	Liability
Fixtures and fittings	√	
Bank		
Cash		
Bank deposit		
Bank loan		

[4]

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(a)

George Gale
Cash Book

Date	Details	Discount $	Cash $	Bank $	Date	Details	Discount $	Cash $	Bank $
2008					2008				
May 25	Balance b/d		80						

[Total: 22]

[Turn over

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2 Saira Mir sells computers on credit to schools. She buys component parts which are assembled in her factory and are then delivered to schools in her business motor vehicle.

REQUIRED

(a) Explain the meaning of capital expenditure and revenue expenditure.

Capital expenditure ....

....

....

Revenue expenditure ....

....

.... [4]

(b) Give **one** example of capital expenditure and **one** example of revenue expenditure in Saira Mir's business.

Capital expenditure ....

Revenue expenditure .... [2]

(c) State how fixed assets should be valued in Saira Mir's accounts.

....

.... [1]

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A motor vehicle purchased by Saira Mir on 1 May 2004 for $8000 was sold on 30 April 2008 for $400. She uses the diminishing (reducing) balance method at 50 % per annum. The motor vehicle had been depreciated by $7000 by 30 April 2007.

REQUIRED

(d) (i) Explain the term depreciation.

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.... [1]

(ii) Calculate depreciation for the motor vehicle for the year ended 30 April 2008.

....

....

.... [2]

(iii) Show the journal entry for the provision for depreciation at 30 April 2008. A narrative is **not** required.

	Dr	Cr
	$	$

[2]

(iv) Prepare the disposal account for the motor vehicle.

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.... [4]

[Total: 16]

[Turn over

For Examiner's Use

3 The following information was provided by Ahmed Abdulla:

Ahmed Abdulla
Summary Trading, Profit and Loss Account for the year ended 31 May 2008

	$		$
Opening stock	10 000	Sales	240 000
Purchases	135 000		
	145 000		
Closing stock	20 000		
Cost of goods sold	125 000		
Gross profit	115 000		
	240 000		240 000
Sundry expenses	85 000	Gross profit	115 000
Net profit	30 000		
	115 000		115 000

Ahmed Abdulla
Summary Balance Sheet as at 31 May 2008

	$		$
Fixed assets	230 000	Capital	260 000
Current assets	60 000	Current liabilities	30 000
	290 000		290 000

Ahmed Abdulla withdrew $40 000 during the year in cash for personal use.

REQUIRED

(a) Calculate the following for Ahmed Abdulla at 31 May 2008. Show your workings in the box provided. (Answers to **one** decimal place.)

		Workings	Ratio
(i)	Gross profit/sales		%
(ii)	Net profit/sales		%
(iii)	Net profit/capital at start of year		%

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(iv)	Working capital ratio		
(v)	Quick ratio (acid test)		
(vi)	Rate of stock turnover		times

[15]

On 1 June 2008 Ahmed Abdulla valued his stock at net realisable value of $18 000. No other changes took place in the business on that day.

REQUIRED

(b) **(i)** Calculate the rate of stock turnover for the period from 1 June 2007 to 1 June 2008 using the net realisable value for stock valuation. (Answer to **one** decimal place.)

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....

.... [2]

(ii) Calculate the working capital on 1 June 2008.

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.... [3]

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(c) (i) Explain **three** reasons why it is important that Ahmed Abdulla has good rates of profitability and liquidity.

1 ....

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2 ....

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3 ....

.... [3]

(ii) Give **three** comments on the financial success of Ahmed Abdulla's business.

1 ....

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2 ....

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3 ....

.... [3]

[Total: 26]

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Question 4 is on the next page

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4 Julie Carter decided to set up in business providing book-keeping and accounting services for clients. She purchased ICT (Information and Communications Technology) equipment to assist her in her accounting practice.

REQUIRED

(a) Explain the difference between book-keeping and accounting.

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.... [4]

(b) Explain the difference between a trading business and a service business.

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.... [4]

(c) State **four** benefits of using ICT equipment in preparing accounts.

(i) ....

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(ii) ....

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(iii) ....

....

(iv) ....

.... [4]

Julie Carter is a qualified accountant and is expected to follow a professional code of ethics.

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REQUIRED

(d) Give **two** reasons why professional ethics in accounting would be important for the clients of Julie Carter.

(i) ....

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(ii) ....

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.... [4]

[Total: 16]

Answer Question 5 in this booklet or on separate sheets of paper.

5 East and West are in partnership sharing profits in the ratio 2 : 1 respectively. The following trial balance was extracted from the books on 31 May 2008.

East and West
Trial Balance at 31 May 2008

	$	$
Purchases	207 620	
Carriage on purchases	2 160	
Purchases returns		1 470
Sales		411 320
Sales returns	7 340	
Wages and salaries	93 700	
Motor expenses	14 600	
General expenses	41 640	
Land and buildings at cost	72 000	
Fixtures and fittings at cost	38 000	
Motor vehicles at cost	21 000	
Provision for depreciation of fixtures and fittings		14 000
Provision for depreciation of motor vehicles		15 750
Debtors	38 500	
Creditors		19 240
Stock at 1 June 2007	15 200	
Cash at bank	1 420	
Capital accounts 1 June 2007		
East		60 000
West		30 000
Current accounts 1 June 2007		
East		10 600
West		6 900
Drawings East	9 050	
West	7 050	
	569 280	569 280

Additional information:

1 Stock at 31 May 2008 was valued at $16 100.

2 At 31 May 2008:

(i) Wages and salaries, $7835, were accrued.

(ii) Motor expenses, $800, were prepaid.

3 Repairs, $2000, which have not added value to property, have been recorded in the land and buildings account in error.

4 Fixtures and fittings are to be depreciated using the straight line method over five years. The residual value is estimated at $3000.

5 Motor vehicles are depreciated using the diminishing (reducing) balance method at 50 % per annum.

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6 A provision for doubtful debts of 2 % of debtors at 31 May 2008 is to be created.

7 Interest is allowed on capital at 5 % per annum. West is entitled to a partnership salary of $3500.

REQUIRED

(a) Prepare the trading, profit and loss and appropriation accounts of East and West for the year ended 31 May 2008. [21]

(b) Prepare the balance sheet of East and West at 31 May 2008. The partners' current accounts may be shown in account format **or** within the balance sheet. [19]

[Total: 40]

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