

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 2004

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 in the spaces provided on the Question Paper.
You may use a soft pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
Question 5 may be answered either in this booklet or on multi-column accounting paper.
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.
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	
Total	

- 2 The following financial statements, *which contain errors*, were prepared by an inexperienced book-keeper.

Trading and Profit and Loss Account for the year ended 31 July 2004

	\$	\$
Sales		100 000
Income from sale of fixed assets		<u>20 000</u>
		120 000
Cost of goods sold		<u>60 000</u>
Gross profit		60 000
Sundry expenses	20 000	
Purchase of fixed assets	<u>30 000</u>	<u>50 000</u>
Net profit		<u>10 000</u>

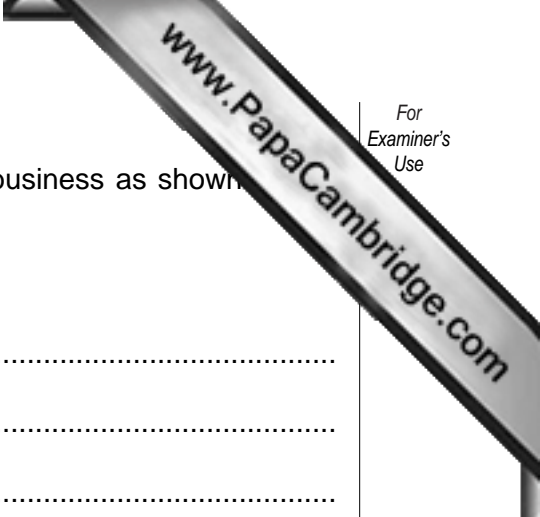
Balance Sheet as at 31 July 2004

	\$	\$
Rent and rates paid		5 000
Stock		8 000
Debtors		2 000
Cash		<u>1 000</u>
		16 000
Creditors	1 100	
Discounts received	<u>900</u>	<u>2 000</u>
		<u>14 000</u>
Capital		10 000
Net profit		<u>10 000</u>
		20 000
Less: drawings		<u>6 000</u>
		<u>14 000</u>

REQUIRED

- (a) Identify the items of capital and revenue income and expenditure which have been incorrectly treated in the financial statements. Explain how each item should have been included in the financial statements.

	Category	Item	Correct Treatment
(i)	Capital income		
(ii)	Capital expenditure		



(b) Describe the changes between 2002 and 2003 in Furley's business as shown in the four ratios in **(a)**. Suggest reasons for any changes.

(i) Gross profit/sales

.....
.....

(ii) Net profit/sales.....

.....
.....

(iii) Net profit/closing capital.....

.....
.....

(iv) Rate of stock turnover.....

.....
.....

[8]

(c) Identify **two** problems a business may have if current liabilities are greater than current assets. Suggest a possible solution for each problem.

Problem 1

.....

Solution 1

.....

Problem 2.....

.....

Solution 2

.....[4]

[Total: 20]

Answer Question 5 on pages 11 and 12 or on separate multi-column accounting paper.

- 5 John Cosway is a trader. The following balances were extracted from his books on 31 August 2004.

	\$
Purchases	67 600
Sales	121 300
Wages and salaries	23 700
Rent and rates paid	7 350
Insurance	1 480
Carriage on purchases	1 260
Discounts received	460
Sundry expenses	10 760
Rent received	1 750
Debtors	11 250
Creditors	7 200
Bank overdraft	1 560
Stock at 1 September 2003	9 650
Capital at 1 September 2003	29 000
Fixtures and equipment at cost	10 000
Drawings	18 220

Additional information

1. Stock at 31 August 2004 was valued at \$11 200.
2. At 31 August 2004 rates prepaid were \$150.
3. Wages and salaries of \$2350 were accrued at 31 August 2004.
4. Accountancy fees of \$1500 for the year are accrued at 31 August 2004.
5. A provision for doubtful debts of 4% of debtors at 31 August 2004 is to be created.
6. Fixtures and equipment are to be depreciated by \$2000 for the year.

REQUIRED

- (a) Prepare the Trading and Profit and Loss Accounts of John Cosway for the year ended 31 August 2004. [20]
- (b) Prepare the Balance Sheet of John Cosway as at 31 August 2004. [15]

[Total: 35]

