Centre Number Candidate Number

Name

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Ordinary Level

PRINCIPLES OF ACCOUNTS

Paper 2

7110/02

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 multicolumn 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 Examir	ner's Use
1	
2	
3	
4	
5	
Total	

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
	[4]
(b)	Justine Stihl account
	[2]
(c)	Bad Debts account
	[6]
	[3]

	the transfer of the transfer o	
	3	For
(d) (i)	Explain why Sanjev Patel wrote off the balance on Justine Stihl's account a debt on 27 September 2006. State which accounting concept he applied.	Examiner's Use
		ale C
		OH
	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.	
	Accounting concept[3]	
	[Total: 15]	

2 Nepsa Ltd is a company with the following capital structure:

	Authorised share capital	Issued share capital
	\$	\$
Ordinary shares of 25c each	400 000	200 000
10% Preference shares of 50c each	100 000	100 000
8% Preference shares of \$1 each	80 000	80 000

The balance of the Profit and Loss Account brought forward on 1 October 2005 was \$65 700.

No shares were issued or redeemed during the year.

During the year ended 30 September 2006, the company made a net profit of \$45 000.

On 30 September 2006 the directors decided on the following:

- 1 To transfer \$50 000 to General Reserve.
- 2 To pay the preference share dividends.
- 3 To pay a dividend of 2c per share on the ordinary shares.

An interim dividend of 1c per share on the ordinary shares was paid during the year.

(a) Prepare the Profit and Loss Appropriation Account of Nepsa Ltd for the year ended

REQUIRED

30 September 2006.
Nepsa Ltd Profit and Loss Appropriation Account for the year ended 30 September 2006
Tront and 2000 Appropriation Account for the year ended to deptember 2000
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[8]

	the state of the s	
	Explain two differences between preference shares and ordinary shares. 1	For
(b)	Explain two differences between preference shares and ordinary shares.	Examiner's Use
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		1
		1
	[2]	
	2	
	[2]	
	ITotal, 421	

[Total: 12]

www.PapaCambridge.com Jessica Clarke extracted the following information from her accounts for the year end 30 September 2006: 3

	\$
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%

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REQUIRED			
(a)	Cal	culate the following for Jessica Clarke for the year ended 30 September 2006:	
	(i)	Cost of sales	
		[2]	
	(ii)	Purchases	
		[3]	
	(iii)	Expenses	
		[2]	

	WWW. D
(b)	7 Calculate Jessica Clarke's net profit as a percentage of capital for the year ended 30 September 2006.
	[2]
(c)	Calculate Jessica Clarke's rate of stock turnover for the year ended 30 September 2006.
	[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.
	[2]
(e)	Explain two disadvantages of holding too much stock.
	[2]
	[2]

[Total: 18]

www.PapaCambridge.com John Regan set up a garage and car sales business on 1 September 2004 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.
- Buildings, costing \$50 000, are to be depreciated at 4% per annum on cost using the straight line method.
- Plant and equipment is to be depreciated at 50% per annum using the diminishing (reducing) balance method.
- Loose tools are to be depreciated using the revaluation method.

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

REQUIRED

(i)	Land	
		••••
		[2]
(ii)	Stock of motor vehicles	
		••••
		[2]

		42
		9
<i>.</i>	40	And
(b)	(i)	Explain one reason why John Regan uses the revaluation method to deploy loose tools.
		[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.
		[2]
(c)		culate the depreciation for each of the years ended 31 August 2005 and
	317	August 2006 for the following:
	(i)	Buildings
		[3]
	(ii)	Plant and equipment
		[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
	[5]
	[V]

[Total: 20]

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Question 5 is on the following page.

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

www.PapaCambridge.com 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		40 000
	<u>364 960</u>	<u>364 960</u>

Additional information

- Stock at 30 September 2006 was valued at \$14 100. 1
- 2 During the year Celia Davidson took goods costing \$1300 for her own use. No entries have been made in the books.
- 3 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. 4
- 5 Insurance, \$400, was prepaid at 30 September 2006.
- 6 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 7 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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