## CANDIDATE

 NAME
## CENTRE NUMBER

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CANDIDATE NUMBER $\square$

## PRINCIPLES OF ACCOUNTS

7110/02
Paper 2
October/November 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 18 and 19 of the answer booklet 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 |  |
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| 4 |  |
| 5 |  |
| Total |  |

This document consists of 14 printed pages, 2 lined pages and $\mathbf{4}$ blank pages.

1 Jason Moore had the following balances in his books on 31 October 2008:
Provision for doubtful debts ..... 150
Capital ..... 16550
Drawings ..... 8000
Plant and equipment ..... 18000
Provision for depreciation of plant and equipment ..... 3000
Stock ..... 4000
Debtors ..... 3000
Creditors ..... 2000
Cash ..... 1500
Sales ..... 40000
Purchases ..... 21000
Sundry expenses ..... 6200

## REQUIRED

(a) Extract the trial balance for Jason Moore at 31 October 2008.

Jason Moore
Trial balance at 31 October 2008
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(b) State two uses of a trial balance.

1 $\qquad$
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2 $\qquad$
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(c) State and explain three errors which do not affect a trial balance.

1

2

3

On investigation Jason identified the following errors in his books.
$1 \$ 3000$ debited to plant and equipment should have been recorded as purchases.
2 A payment to creditors of $\$ 1000$ in cash had not been recorded.

## REQUIRED

(d) Make journal entries to record the correction of the errors. Narratives are not required.


Jason Moore's capital account at 31 October 2008 was as follows:
Capital account

|  |  | $\begin{aligned} & \mathrm{Dr} \\ & \$ \\ & \hline \end{aligned}$ | $\begin{array}{r} \mathrm{Cr} \\ \$ \end{array}$ | Balance \$ |
| :---: | :---: | :---: | :---: | :---: |
| 2007 |  |  |  |  |
| $\begin{array}{r} \text { Nov } 1 \\ 2008 \end{array}$ | Balance b/d |  |  | 16550 |
| Oct 31 | Profit and loss |  | 10880 | 27430 |
| 31 | Drawings | 8000 |  | 19430 |

(e) (i) Identify the above format of ledger accounts and state the benefit of this format compared with ' $T$ ' accounts.
$\qquad$
$\qquad$
$\qquad$
(ii) Explain why the final balance in the account above differs from the capital account balance in the trial balance.
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$\qquad$
$\qquad$
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2 Tina West, a trader, uses books of prime entry. She does not operate a full doub system. The following information is extracted from her business records for the year e 31 October 2008:

|  | $\$$ |
| :--- | ---: |
| Debtors' control account balance 1 November 2007 | 33200 |
| Debtors' control account balance 31 October 2008 | 48600 |
| Receipts from debtors | 135000 |
| Receipts from cash sales | 56000 |
| Bad debt written off | 5500 |
| Discount allowed | 7200 |

## REQUIRED

(a) Calculate the total sales for the year ended 31 October 2008. Show all workings.
$\qquad$
$\qquad$
$\qquad$
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Tina West has a gross profit to sales ratio of $40 \%$ and net profit to sales ratio of $5 \%$.
(b) Calculate Tina West's gross profit and net profit.

Gross profit $\qquad$
$\qquad$
Net profit $\qquad$

Tina West employs two part-time staff. Each works 50 weeks a year. One is emplo 25 hours each week at $\$ 6$ per hour. The other works 30 hours each week at $\$ 8$ per hou
(c) (i) Calculate the total wages Tina West pays the part-time staff during the year.
$\qquad$
$\qquad$
(ii) State one additional payroll cost Tina West would incur.
$\qquad$

Both employees have asked for a $10 \%$ increase in pay. Tina can use the information in her final accounts when considering this request.
(d) Explain three different ways in which the final accounts can help Tina decide about the pay rise.

1
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3 $\qquad$
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3 The treasurer of Avalon Social Club did not keep proper accounting records. The fo information was available at 31 October 2008:

1 Subscriptions paid in advance by members at 1 November 2007 amounted to $\$ 210$. The balance of subscriptions in arrears was $\$ 130$.

2 Receipts during the year ended 31 October 2008:

|  | $\$$ |
| ---: | :---: |
| Subscriptions - for the year ended 31 October 2007 | 130 (in arrears) |
| - for the year ended 31 October 2008 | 1490 |
| - for the year ended 31 October 2009 | 90 (in advance) |
| Sale of refreshments | 4970 |

3 Payments during the year ended 31 October 2008:

|  | $\$$ |
| :--- | ---: |
| Purchase of refreshments | 3630 |
| Rent and rates | 1400 |
| Insurance | 300 |
| Sundry expenses | 1300 |

Additional information:

|  | 1 November 2007 | 31 October 2008 |
| :--- | :---: | :---: |
|  | $\$$ | $\$$ |
| Stock of refreshments | 340 | 290 |
| Balance at bank | 740 Dr | 790 Dr |

All receipts and payments were made through the bank account.

## REQUIRED

(a) Calculate the accumulated fund at 1 November 2007.
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$$
\begin{aligned}
& \text { Avalon Social Club } \\
& \text { Subscriptions account }
\end{aligned}
$$

(b) Prepare the subscriptions account for the year ended 31 October 2008.
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(c) Calculate the gross profit made on the sale of refreshments.
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(d) Prepare the income and expenditure account for the year ended 31 October 200

## Avalon Social Club

 Income and Expenditure Account for the year ended 31 October 2008$\qquad$
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(e) Explain how the matching/accruals concept should be used in calculating subscriptions for the year.
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Question 4 is on the next page

4 Agrippa Ltd had the following balances in its accounts after the calculation of net the year ended 31 October 2008:

|  | $\$$ |
| :--- | ---: |
| Land and buildings at cost | 100000 |
| Plant and equipment at cost | 80000 |
| Provision for depreciation of plant and equipment | 40000 |
| Stock | 14400 |
| Debtors | 10000 |
| Cash at bank (Dr) | 5000 |
| Creditors | 15000 |
| Called up share capital: | 30000 |
| 5\% \$1 Preference shares | 40000 |
| \$1 Ordinary shares | 20000 |
| 8\% Debenture loan | 8000 |
| General reserves | 50000 |
| Profit nand loss account for the year ended 1 November 2007 | 7000 |

## Additional information:

1 The directors have decided to transfer \$20 000 to the general reserves.
2 The directors agreed to pay the preference share dividend for the year.
They also declared a final dividend of $21 / 2 \%$ on ordinary shares.
An interim dividend of $11 / 2 \%$ on ordinary shares had been paid in April 2008.

## REQUIRED

(a) Prepare the appropriation account for Agrippa Ltd for the year ended 31 October 2008.

Agrippa Ltd
Appropriation Account for the year ended 31 October 2008
$\qquad$
$\qquad$
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(b) Prepare the balance sheet extract for the capital and reserves of Agrippa Lt 31 October 2008.

Agrippa Ltd Balance Sheet (extract) at 31 October 2008
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$\qquad$
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(c) Explain the difference between authorised and called-up share capital.
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(d) Explain one difference between ordinary and preference shares.
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(e) Explain one difference between preference shares and debentures.
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A director has asked the company's accountant to value the closing stock in th accounts at market value of $\$ 20000$ instead of cost price, $\$ 14400$.

## REQUIRED

(f) Explain why the accountant cannot ethically do this.
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Larger companies prepare their published accounts in accordance with International Accounting Standards (IASs).

## REQUIRED

(g) Explain two reasons why International Accounting Standards are used.

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2 $\qquad$

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

5 Samma Rashid is a manufacturer. The following balances were extracted from the boo on 31 October 2008:
\$
Stock at 1 November 2007
Raw materials
26700
Work in progress
7900
Finished goods
2450
Purchases of raw materials 213200
Purchases of finished goods
15800
Purchases returns of finished goods 900
Sales
525300
Discounts received 5100
Direct factory wages 145300
Factory manager's salary 14800
Indirect factory expenses 23200
Office salaries 36200
Office expenses 18600
Distribution costs 23400
Factory plant and machinery at cost 80000
Office equipment at cost 24000
Provision for depreciation of factory plant and machinery 36000
Provision for depreciation of office equipment 15360
Debtors 44250
Provision for doubtful debts 800
Creditors 19600
Drawings 11600
Bank
3600 Cr
Capital 80740

Additional information:
1 Stock at 31 October 2008 was valued as follows:

|  | $\$$ |
| :--- | ---: |
| Raw materials | 30640 |
| Work in progress | 8200 |
| Finished goods | 2150 |

2 At 31 October 2008:
Direct factory wages, $\$ 12$ 100, were accrued.
Distribution costs, $\$ 1860$, were prepaid.
3 Depreciation is to be charged on factory plant and machinery at $25 \%$ per annum using the straight line method. The residual value of plant and machinery is estimated at $\$ 8000$.

4 Depreciation is to be charged on office equipment at $40 \%$ per annum using the diminishing (reducing) balance method.

No purchases or sales of fixed assets took place within the year.

5 A cheque for $\$ 4800$ was received from a debtor on 31 October 2008 but hat omitted, in error, from the above balances. This is to be entered in the books.

6 The provision for doubtful debts is to be maintained at $2 \%$ of debtors.

## REQUIRED

(a) Prepare the manufacturing account for the year ended 31 October 2008. Show clearly cost of raw materials consumed, prime cost and cost of production.
(b) Prepare the trading and profit and loss accounts for the year ended 31 October 2008.
(c) Prepare the balance sheet at 31 October 2008.
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