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**PRINCIPLES OF ACCOUNTS**

**7110/21**

Paper 2

**May/June 2015**

**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 **19** printed pages and **1** blank page.

- 1 Mira prepared a trial balance using the following information on 31 March 2015. The trial balance failed to balance.

	\$
Office fixtures (at cost)	18 000
Office fixtures provision for depreciation	7 200
Trade payables	5 400
General expenses (prepaid)	1 520
Trade receivables	3 700
Inventory	7 800
Bank overdraft	2 600
Capital	16 000

**REQUIRED**

- (a) Prepare the trial balance at 31 March 2015, including an appropriate balancing entry.

Mira  
Trial Balance at 31 March 2015

	Dr	Cr
	\$	\$
Office fixtures (at cost)		
Office fixtures provision for depreciation		
Trade payables		
General expenses		
Trade receivables		
Inventory		
Bank overdraft		
Capital		

[4]

On inspecting the books, Mira found the following errors:

- 1 A payment for general expenses, \$750, had been correctly entered in the bank account, but had been recorded in the general expenses account as \$570.
- 2 General expenses, \$1000, had been recorded in the office fixtures account.

**REQUIRED**

(b) Prepare the entries in the general journal to correct items 1 and 2. Narratives are **not** required.

General Journal

	Dr \$	Cr \$
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[4]

The following were some of the transactions completed in April 2015.

- April 9 Sold goods on credit to Yash.
- April 11 Yash returned goods sold on 9 April as they were damaged.
- April 14 Paid wages by cheque.
- April 19 Purchased office fixtures on credit from Equip Limited.

**REQUIRED**

(c) Complete the following table. The first item has been completed as an example.

Date	Transaction	Source document	Book of prime entry	Account debited	Account credited
April 9	Sold goods on credit to Yash.	<i>Sales invoice</i>	<i>Sales journal</i>	<i>Yash</i>	<i>Sales</i>
April 11	Yash returned goods sold on 9 April as damaged.				
April 14	Paid wages by cheque.				
April 19	Purchased office fixtures on credit from Equip Limited.				

[12]

[Total: 20]

2 The following information was obtained from the books of Arden.

		\$
1 February 2015	Trade receivables balance	14 900 Dr
	Trade payables balance	17 160 Cr
28 February 2015	Cheques received from trade receivables	45 800
	Cheque from trade receivable later dishonoured	200
	Cheques paid to trade payables	32 500
	Discount allowed	2 700
	Discount received	910
	Purchases returns	3 800
	Bad debts	1 800
	Cash sales	10 500
1 March 2015	Trade receivables balance	12 600 Dr
	Trade payables balance	8 450 Cr

**REQUIRED**

- (a) Prepare the purchases ledger control account showing the credit purchases made in the month of February 2015.

Purchases ledger control account

Date	Details	\$	Date	Details	\$

[6]

- (b) Prepare the sales ledger control account showing the credit sales made for the month of February 2015.

Sales ledger control account

Date	Details	\$	Date	Details	\$

[7]

Additional information

1 Payments for February

	\$
Wages	15 200
General expenses	7 900

2 Balances at

	1 February 2015	28 February 2015
	\$	\$
Inventory	9 350	8 650
Non-current assets (at valuation)	18 000	17 200
General expenses owing	2 300	1 600

**REQUIRED**

(c) Prepare the income statement for the month ended 28 February 2015.

Income Statement for the month ended 28 February 2015

	\$	\$
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[6]

(d) State **two** benefits to Arden of using Information Communication Technology (ICT) in his bookkeeping and accounting.

- 1 .....
- .....
- 2 .....
- .....

[2]

[Total: 21]

[Turn over

- 3 Warle Limited provided the following information after the calculation of the profit for the year ended 30 April 2015.

	\$
Profit for the year ended 30 April 2015	86 000
Authorised share capital:	
\$1 Ordinary shares	100 000
Called up share capital:	
\$1 Ordinary shares	100 000
Interim dividend paid	3 000
General reserve	20 000
Retained profits 1 May 2014	14 000

Additional information

The directors have:

- 1 transferred \$50 000 to the general reserve
- 2 paid a final ordinary shares dividend of \$0.15 per share.

**REQUIRED**

- (a) Prepare the statement of changes in equity for the year ended 30 April 2015.

Warle Limited  
Statement of Changes in Equity for the year ended 30 April 2015

	Share Capital \$	General Reserve \$	Retained Profits \$	Total \$
Balance at 1 May 2014	100 000	20 000	14 000	134 000
Profit for the year	.....	.....	.....	.....
Transfer to general reserve	.....	.....	.....	.....
Dividend paid (interim)	.....	.....	.....	.....
Dividend paid (final)	.....	.....	.....	.....
Balance at 30 April 2015	.....	.....	.....	.....

[6]



- (b) Prepare the statement of financial position extract for the equity and reserves of Warle Limited at 30 April 2015.

Statement of Financial Position extract at 30 April 2015

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- (c) State **two** differences between preference shares and debentures. [5]

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- (d) State **two** possible reasons why the directors of Warle Limited have transferred \$50 000 to the general reserve. [4]

1 .....

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2 .....

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(e) State **two** reasons why large companies prepare their published financial statements in accordance with International Accounting Standards (IAS).

1 .....

.....

2 .....

.....[2]

**[Total: 19]**

4 John provided the following information for the year ended 31 March 2015.

	\$
Revenue	900 000
Inventory 1 April 2014	65 000
Inventory 31 March 2015	35 000
Expenses	105 000
Owner's capital	300 000
Long term loan	150 000
Mark up	20%

**REQUIRED**

(a) Calculate for the year ended 31 March 2015:

(i) Cost of goods sold

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.....  
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.....  
.....[2]

(ii) Profit for the year

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.....  
.....  
.....  
.....[2]

(b) Calculate the following ratios.

	Workings	31 March 2015	31 March 2014
Profit margin (profit for the year to revenue)			5%
Rate of inventory turnover			7 times
Return on capital employed (ROCE)			4%

[6]

(c) Give **two** comments on the performance of John’s business over the two years.

1 .....

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2 .....

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.....[6]

John is considering the following proposals to improve his profit for the year.

- 1 Change the depreciation methods for non-current assets.
- 2 Remove the provision for doubtful debts from the financial statements.
- 3 Value the inventory at market price.
- 4 Place a value on the skill of the workforce in the financial statements.
- 5 Exclude expenses owing from the income statement.

**REQUIRED**

(d) Name the accounting principle/concept which would **not** be complied with if each proposal was implemented. The first one has been completed as an example.

	Proposal	Accounting principle/ concept
1	Change the depreciation methods for non-current assets	<i>Consistency</i>
2	Remove the provision for doubtful debts from the financial statements	
3	Value the inventory at market price	
4	Place a value on the skill of the workforce in the financial statements	
5	Exclude expenses owing from the income statement	

[4]

**[Total: 20]**

5 The following balances were extracted from the books of Spiron Manufacturing on 30 April 2015.

	\$
Factory machinery (cost)	80 000
Office fixtures (cost)	20 000
Provision for depreciation	
Factory machinery	60 000
Office fixtures	8 000
Purchases of raw materials	85 000
Inventory at 1 May 2014	
Raw materials	10 150
Work in progress	15 000
Finished goods	21 200
Revenue	310 000
Purchases of finished goods	19 000
Factory managers' salaries	32 000
Office wages and salaries	41 900
Direct factory expenses	5 600
Indirect factory expenses	9 800
Factory wages	47 000
Rent	10 000
Insurance	8 000
Marketing expenses	12 400
Distribution costs	9 850
Financial expenses	7 650
Provision for doubtful debts	400
Trade receivables	23 900
Trade payables	14 350
Bank	7 700 Dr
Capital	90 000
Drawings	16 600

Additional information at 30 April 2015

1 Inventory was valued as follows:

	\$
Raw materials	12 750
Work in progress	16 200
Finished goods	18 700

2 Insurance and rent are to be apportioned 80% to the factory and 20% to the office.

3 Financial expenses owing were \$850.

4 Marketing expenses of \$600 were prepaid.

5 Depreciation is to be charged as follows:

(i) Factory machinery at 25% per annum using the diminishing (reducing) balance method

(ii) Office fixtures at 15% using the straight-line method.

6 A debt of \$1900 was considered irrecoverable. A provision for doubtful debts is to be maintained at 5%.







(c) Prepare the statement of financial position at 30 April 2015.

Statement of Financial Position at 30 April 2015

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[12]

**[Total: 40]**

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