

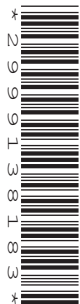
CANDIDATE
NAME

CENTRE
NUMBER

--	--	--	--	--

CANDIDATE
NUMBER

--	--	--	--



PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 2017

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 **18** printed pages and **2** blank pages.

REQUIRED

- (b) Prepare the following ledger accounts for the three months to 31 July 2017. Show the transfer to the income statement where appropriate. Balance the accounts and bring down the balances on 1 August 2017.

Weston Water Supplies account

Date	Details	\$	Date	Details	\$

Water expense account

Date	Details	\$	Date	Details	\$

[9]

- (c) Name and explain the accounting principle or concept applied in estimating the water expense owing on 31 July 2017.

Accounting principle or concept

.....

Explanation

.....

.....

.....

..... [3]

- (d) Complete the following table for the transactions recorded in Aqil's books in July 2017. The first transaction has been completed as an example.

		Source document	Book of prime entry
July 19	Sold inventory on credit	<i>Sales invoice</i>	<i>Sales journal</i>
July 20	Credit customer returned goods to Aqil		
July 23	Paid wages in cash		
July 25	Purchased motor vehicle on credit		

[6]

[Total: 20]

2 The following information relates to the machines of Crosby Packing.

1 January 2014	Purchased Machine A for \$12 000
30 September 2015	Purchased Machine B for \$16 000
30 June 2016	Disposed of Machine A and received a cheque for \$7500.

Crosby Packing's depreciation policy is as follows:

- (i) Machines are depreciated at the rate of 20% per annum using the straight-line method.
- (ii) Depreciation charge in the year of purchase or sale is based on months of ownership.

REQUIRED

(a) State **two** advantages of the straight-line method.

1

.....

2

.....

[2]

(b) Complete the table to show the depreciation charged in **each** of the two years ended 31 December 2015 and 31 December 2016.

Year ended	Machine A \$	Machine B \$	Total for year \$
31 December 2015			
31 December 2016			

Workings:

[4]

(e) Explain the term 'revenue receipt'.

.....

.....

.....

..... [2]

(f) Complete the table by placing a tick (✓) to show whether **each** of the following is capital expenditure, revenue expenditure, capital receipt or revenue receipt.

	Capital expenditure	Revenue expenditure	Capital receipt	Revenue receipt
1. Received a cheque on sale of machine				
2. Replaced broken machine part				
3. Installed a machine				

[3]

[Total: 20]

- 3 The following balances were extracted from the books of Digby Products for the year ended 31 March 2017.

	\$
Inventory at 1 April 2016	
Raw materials	27 000
Work in progress	67 000
Purchases of raw materials	101 900
Raw materials returned to supplier	6 650
Factory direct wages	78 800
Royalties	10 000
Factory indirect wages	20 800
Factory management salaries	49 000
Office wages and salaries	37 800
Rent	21 000
Electricity	2 200
Maintenance	15 000
Depreciation on factory equipment	17 100
Depreciation on office fixtures and fittings	9 000

Additional information at 31 March 2017

- | | | |
|---|--|--------|
| 1 | Inventory | \$ |
| | Raw materials | 23 450 |
| | Work in progress | 58 100 |
| 2 | Factory direct wages, \$3500, were accrued. | |
| 3 | Electricity, \$200, was prepaid. | |
| 4 | Rent and electricity are to be apportioned: 70% to the factory, 30% to administration. | |
| 5 | Maintenance is to be apportioned: 80% to the factory, 20% to administration. | |

Lian is an assembly worker paid on a time basis. In March 2017 he worked 160 hours at \$8 per hour, 25 hours at time and a half and 10 hours at double time. He paid income tax of \$350 and voluntary deductions of \$60.

REQUIRED

(b) Give **one** example of a voluntary deduction.

.....[1]

(c) Calculate the net pay of Lian for March 2017.

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....[3]

Digby Products is considering the use of a piecework basis for the payment of assembly workers. A payment of \$3 would be made for each item that passed inspection. In March 2017 Lian completed 670 items of which 17 were rejected at inspection.

REQUIRED

(d) Calculate the gross pay if Lian had been paid using the piecework basis for March 2017.

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

(e) State **two** disadvantages to Digby Products of paying assembly workers using the piecework basis.

1.....
.....
2.....
.....[2]

[Total: 20]

Question 4 is on the next page.

- 4 The trial balance of Juan, **after** preparing the trading account section of the income statement, was as follows:

Juan		
Trial Balance at 30 April 2017		
	Dr	Cr
	\$	\$
Gross profit		60 000
General expenses	25 000	
Non-current assets		
Cost	40 000	
Provision for depreciation		13 000
Bank		25 000
Trade receivables	15 000	
Trade payables		32 000
Inventory at 30 April 2017	60 000	
Capital	140 000	10 000
	140 000	140 000

Additional information for the year ended 30 April 2017

- 1 Mark-up on cost of sales was 20%.
- 2 Depreciation on non-current assets for the year was \$8000 and is yet to be provided.

REQUIRED

(a) Calculate the:

(i) Revenue

.....

.....

.....

..... [2]

(ii) Profit for the year

.....

.....

.....

..... [2]

(iii) Working capital

.....

.....

.....

..... [2]

(b) Calculate the following ratios correct to **two** decimal places.

	Workings	Answer
Percentage of profit for the year to revenue (profit margin)		
Working capital ratio (current ratio)		
Quick ratio (acid test ratio)		

[6]

(c) Explain to Juan why the quick ratio (acid test ratio) is a better measure of liquidity than the working capital ratio (current ratio).

.....

.....

.....

..... [2]

(d) Comment upon the sufficiency of Juan’s liquidity level. Explain the reason for your comment.

Comment

.....

.....

Reason

.....

.....

..... [3]

(e) Suggest **three** ways in which Juan might increase his bank balance.

1.....

2.....

3..... [3]

[Total: 20]
[Turn over

5 Khayla is a sole trader. The following balances were extracted from the books on 30 April 2017.

	\$
Revenue	447 000
Purchases	204 400
Returns inwards	8 650
Wages and salaries	105 600
Motor vehicle expenses	19 200
General expenses	31 100
Rent receivable	8 500
Rent payable	24 000
Motor vehicles (cost)	40 000
Computers (cost)	55 000
Fixtures and fittings (cost)	15 000
Provisions for depreciation:	
Motor vehicles	12 000
Computers	17 000
Fixtures and fittings	4 000
5% Bank loan (repayable 30 June 2022)	80 000
Bank interest paid	2 500
Inventory at 1 May 2016	29 350
Heat and light	10 700
Cash and bank	15 400 Debit
Trade payables	36 750
Trade receivables	44 700
Provision for doubtful debts	1 400
Capital	30 000
Drawings	31 050

Additional information at 30 April 2017

1. Inventory was valued at \$32 450.
2. On 16 April 2017 goods had been purchased for \$7 500 cash. The transaction had not been recorded in the books.
3. General expenses were accrued, \$3 500, and prepaid, \$1 800.
4. Rent receivable of \$4 500 was owing.
5. The rent payable included a payment of \$12 000 for the six months ended 30 June 2017.

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.