



Cambridge International Examinations
Cambridge Ordinary Level

CANDIDATE
NAME

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CENTRE
NUMBER

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PRINCIPLES OF ACCOUNTS

7110/22

Paper 2

May/June 2018

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 **21** printed pages and **3** blank pages.

- 1 On 1 May 2018 the balance in the bank column of Nuri's cash book was \$350 debit.
Nuri received a bank statement dated 1 May 2018 which showed a balance of \$400 credit.
Nuri compared her cash book with the bank statement and found the following differences.

1 Entries recorded in the cash book but **not** in the bank statement

- April 20 Cheque number 270 paid to Jegan, \$570
23 Cheque number 873 received and banked from Sofia, \$245
28 Cheque number 272, drawings taken by Nuri, \$150
29 Cash sales banked, \$300

2 Entries recorded in the bank statement but **not** in the cash book

Date	Details	Debit	Credit
		\$	\$
April 22	Christan – Cheque (Refer to drawer)	120	
25	Dividend received		150
26	West Gas – Credit transfer (DD)	80	
30	Bank charges	75	

REQUIRED

- (a) Update the bank columns in Nuri's cash book. Bring down the balance on 1 May 2018.

Cash book (bank columns only)

Date	Details	\$	Date	Details	\$
2018			2018		
May 1	<i>Balance b/d</i>	<i>350</i>			

[5]

The following information relates to George, a credit customer of Nuri.

- April 1 There was no balance on George's account
- 10 Sold goods to George on credit, \$400
- 20 Sold goods to George on credit, \$500, less 15% trade discount
- 22 George returned goods, purchased on 20 April, with a list price of \$80
- 23 George paid by cheque for the goods purchased on 10 April.

Nuri offers payment terms of 2½% cash discount if payment is made within 28 days of sale.

REQUIRED

- (d) Prepare the account of George in the ledger of Nuri. Balance the account and bring down the balance on 1 May 2018.

George account

Date	Details	\$	Date	Details	\$

[5]

- (e) Complete the table to name the subdivision of Nuri's ledger which would contain **each** of the following accounts.

Account	Subdivision of the ledger
Sales	
George	
Drawings	

[3]

[Total: 20]

2 Zarita prepared a trial balance at 31 March 2018. The trial balance totals agreed. The following errors were later discovered.

- 1 Sales on credit to Winchester, \$830, had been recorded in the sales journal as \$380.
- 2 Discount allowed to Bloom, \$60, had been credited in the discount allowed account and debited in Bloom's account.
- 3 Computer expenses, \$900, had been recorded in the computer account.
- 4 A purchase of goods from Stilson, \$420, had been posted to the account of Filton.

REQUIRED

(a) Name **each** type of error in 1 to 4.

1.....

2.....

3.....

4.....

[4]

(b) Explain why the trial balance totals agreed although there were four errors in the books.

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[2]

(c) Prepare the entries in the general journal to correct errors 1 to 4. Narratives are **not** required.

General Journal

	Debit \$	Credit \$
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[8]

Before Zarita corrected the errors she had calculated a draft profit for the year of \$6800.

REQUIRED

- (d) Complete the following table to show the effect of **correcting each** error on the draft profit for the year.

Where there is no effect write 'No Effect'.

Calculate the revised profit for the year.

Statement of Corrected Profit for the year ended 31 March 2018

Error		Increase	Decrease	
		\$	\$	\$
	Draft profit for the year			6800
1	Sales on credit to Winchester, \$830, had been recorded in the sales journal as \$380.			
2	Discount allowed to Bloom, \$60, had been credited in the discount allowed account and debited in Bloom's account.			
3	Computer expenses, \$900, had been recorded in the computer account.			
4	A purchase of goods from Stilson, \$420, had been posted to the account of Filton.			
	Revised profit for the year			

[6]

[Total: 20]

- 3 The W Sports Club provides sporting facilities for members. The club also runs a shop for the sale of sports clothing.

The following information is available.

Summarised Receipts and Payments Account
for the year ended 30 April 2018

	\$		\$
Balance b/d	700	Shop purchases of sports clothing	1400
Subscriptions	1820	Catering for special event	600
Sale of tickets for special event	1080	Wages	1500
Shop sales of sports clothing	2600	General expenses	1900
Other income	1250	Rent	1150
		Balance c/d	900
	<u>7450</u>		<u>7450</u>
Balance b/d	900		

Balances at:	1 May 2017	30 April 2018
	\$	\$
Subscriptions in arrears	75	45
Subscriptions in advance	60	50
Inventory – sports clothing	400	550
Trade payables – sports clothing	200	140
Other payables – special event	–	250
Non-current assets (at valuation)	6200	5900
Rent accrued	–	100

Additional information

- 1 The subscriptions received in the year included all subscriptions in arrears on 1 May 2017.
- 2 The wages include \$900 for the sports clothing shop and \$180 for the special event. The special event was organised in March 2018.
- 3 20% of the rent and \$130 of the general expenses relate to the sports clothing shop.

REQUIRED

- (a) Calculate the subscriptions for the year ended 30 April 2018.

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.....[4]

(e) Explain why subscriptions paid in advance will be shown as a liability in the statement of financial position of the W Sports Club.

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.....[2]

[Total: 20]

4 The following balances remained in the books of Dharma on 30 April 2018 **after** preparation of the financial statements.

	\$
Non-current assets	25 000
Dharma's capital	20 000
Bank loan (repayable 2022)	?
Bank overdraft	2 000
Trade receivables	8 500
Trade payables	6 000
Inventory	?

Additional information

1 Profit for the year is \$7400.

2 Working capital ratio (current ratio) is 2.5:1.

REQUIRED

(a) Calculate the value at 30 April 2018 of the:

(i) inventory

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.....[2]

(ii) bank loan (repayable 2022)

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(b) Calculate the following ratios to **two** decimal places. The previous year's ratios are shown in the last column.

	Workings	30 April 2018	30 April 2017
Quick ratio (acid test ratio)			1.35:1
Profit for the year to capital employed			14.00%

[4]

(c) Comment on the change in **each** ratio over the two years. Give **one** possible reason for the change in each ratio.

(i) Quick ratio (acid test ratio)

Comment

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Reason

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[2]

(ii) Profit for the year to capital employed

Comment

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Reason

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[2]

Dharma is considering four proposals for the next financial year but is concerned about the effect on his working capital and his profit for the year.

- Proposal 1 Sell some non-current assets on credit at book value.
- Proposal 2 Convert the bank overdraft into a 5-year bank loan at a lower rate of interest.
- Proposal 3 Offer a 5% cash discount to trade receivables. It is expected that all of the trade receivables will accept the offer.
- Proposal 4 Reduce credit sales and increase cash sales.

REQUIRED

(d) Complete the table by placing a tick (✓) to indicate the effect of **each** proposal on Dharma’s working capital and his profit for the year. The first item has been completed as an example.

Proposal	Working capital			Profit for the year		
	increase	decrease	no effect	increase	decrease	no effect
1	✓					✓
2						
3						
4						

[6]

(e) State **two** advantages to Dharma of using International Accounting Standards (IAS) when preparing his financial statements.

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

[Total: 20]

PLEASE TURN OVER

- 5 Boris is in business as a sole trader. The following balances were extracted from his books on 30 April 2018.

	\$
Revenue	419 000
Purchases	242 000
Returns inwards	7 800
Returns outwards	6 200
Inventory at 1 May 2017	28 900
Disposal account	7 500 debit
8% Bank loan (repayable 31 July 2020)	60 000
Bank loan interest paid	2 400
Bank	4 000 debit
Trade receivables	37 400
Trade payables	19 000
Provision for doubtful debts	900
Premises (cost)	100 000
Computer equipment (cost)	40 000
Fixtures and fittings (cost)	10 000
Provisions for depreciation at 1 May 2017	
Premises	64 000
Computer equipment	15 000
Fixtures and fittings	4 500
Administration expenses	30 000
Carriage	11 500
Drawings	20 700
Capital	50 000
Water and electricity	12 400
Wages and salaries	51 600
Advertising	24 000
General expenses	17 400
Rent received	9 000

Additional information at 30 April 2018

- 1 Inventory was valued at \$22500.
- 2 A purchase of goods, \$4000, had been omitted from the books. The purchase was \$1000 by cheque and \$3000 on credit.
- 3 The carriage included \$2500 for collecting purchases. The remainder was for carrying goods to customers' premises.
- 4 During the year Boris took goods for his own use, \$4500.
- 5 Advertising expenses include \$9000 paid for a marketing campaign running from the beginning of March to the end of August 2018.
- 6 Three months' bank loan interest is due.
- 7 Depreciation is charged as follows:
 - (i) Premises at the rate of 2% per annum using the straight-line method
 - (ii) Computer equipment at the rate of 20% per annum using the diminishing (reducing) balance method
 - (iii) Fixtures and fittings at the rate of 10% per annum on cost.
- 8 Trade receivables include a debt of \$2400 which was considered irrecoverable. The provision for doubtful debts of 4% is to be maintained.

REQUIRED

(a) Prepare the income statement for the year ended 30 April 2018.

Boris
Income Statement for the year ended 30 April 2018

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