

CANDIDATE
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NUMBER

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PRINCIPLES OF ACCOUNTS

7110/21

Paper 2

October/November 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 **20** printed pages.

- 1** Lohit is a supplier of goods to Asanka. The following entries require recording in the books of Asanka for the month of August 2018.

August 1 Asanka owed Lohit, \$90

9 Lohit supplied goods to Asanka, list price \$80 less 15% discount

10 Asanka returned goods, list price \$20, supplied on 9 August

15 Asanka paid \$97 by cheque after deducting \$3 discount

REQUIRED

- (a) Prepare the account of Lohit in the books of Asanka for August 2018. Balance the account and bring down the balance on 1 September 2018.

Lohit account

[5]

- (b)** Name each of the following:

- (i) type of discount allowed by Lohit on 9 August

[1]

- (ii) book of prime entry in which **Lohit** would record the transaction on 9 August

[1]

- (iii) document that **Lohit** would send to Asanka recording the transaction on 10 August

[1]

- (iv) sub-division of **Lohit's** ledger which would contain the account of Asanka

[1]

- (v) section of **Lohit's** statement of financial position which would contain the balance on Asanka's account.

[1]

The following were recorded in the books of Asanka in the year ended 31 August 2018.

	Balance 1 September 2017 \$	Cash book entries for the year ended 31 August 2018 \$	Balance 1 September 2018 \$
Rent payable	150 Debit	14 000 Paid	250 Debit
Telephone expenses	60 Debit	1 500 Paid	25 Credit
Rent receivable	200 Credit	1 800 Received	500 Debit

REQUIRED

- (c) Explain the meaning of the:

(i) \$150 debit balance on the rent payable account on 1 September 2017;

.....

..... [2]

(ii) \$25 credit balance on the telephone expenses account on 1 September 2018.

.....

..... [2]

- (d) Complete the following table by inserting the values of rent payable, telephone expenses and rent receivable which would appear in the trial balance, income statement and statement of financial position.

The first one has been completed as an example.

	Trial balance at 31 August 2018	Income statement for the year ended 31 August 2018		Statement of financial position at 31 August 2018	
		Expenses	Income	Assets	Liabilities
		\$	\$	\$	\$
Rent payable	14 150	13 900	—	250	—
Telephone expenses					
Rent receivable					

[6]

[Total: 20]

2 Arjit provided the following information for the month of July 2018.

1 Sales ledger control account balances 1 July 2018

	\$
Debit	4230
Credit	80

2 Transactions for the month ended 31 July 2018

	\$
Credit sales	9200
Cash sales	3100
Bad debts written off	450
Discount allowed	230
Returns inwards	740
Receipts from credit customers	8000
Refund to credit customer by cheque	300
Interest charged on overdue account	180

3 Sales ledger control account balances 1 August 2018

	\$
Debit	?
Credit	150

REQUIRED

- (a) Prepare the sales ledger control account for the month of July 2018. Balance the account and bring down the balances on 1 August 2018.

Sales ledger control account

[9]

- (b)** State **one** possible reason for the credit balance on the sales ledger control account.

[1]

Arjit prepared a trial balance on 31 July 2018. The totals of the trial balance did not agree. He opened a suspense account.

On inspecting his books Arjit found the following errors.

- 1 A purchase of goods from Dipu had been correctly recorded in the purchases journal as \$65. An entry of \$45 had been made in the account of Dipu.
 - 2 A cheque received from Arca, \$240, had been recorded in Arca's account as \$420.
 - 3 The total of the discount allowed column in the cash book, \$15, had been credited to the discount allowed account.

REQUIRED

- (c) Prepare the journal entries to correct the errors 1 to 3. Narratives are **not** required.

General Journal

[6]

- (d) Prepare the suspense account showing the original difference in the books.

Suspense account

Date	Details	\$	Date	Details	\$

[4]

[Total: 20]

- 3 The following information is available for B Limited at 31 August 2018.

B Limited
Statement of Changes in Equity for the year ended 31 August 2018

	Ordinary Shares \$	General Reserve \$	Retained Earnings \$	Total \$
Balance at 1 September 2017	150 000	65 000	85 000	300 000
Profit for the year			75 000	75 000
Transfer to general reserve		25 000	(25 000)	–
Dividend paid (ordinary shares)			(21 000)	(21 000)
Balance at 31 August 2018	<u>150 000</u>	<u>90 000</u>	<u>114 000</u>	<u>354 000</u>

Other balances at 31 August 2018

	\$
Trade payables	73 000
6% Debentures (repayable 2024)	50 000
Debenture interest owing	4 800
General expenses owing	5 300
5% Bank loan (repayable 31 May 2019)	40 000

Additional information

B Limited had issued 300 000 ordinary shares.

REQUIRED

- (a) Explain why the debentures are **not** included in the statement of changes in equity.

.....

 [2]

- (b) Calculate the dividend paid on ordinary shares for the year (in \$ per ordinary share).

.....

 [2]

- (c) Prepare an extract from the statement of financial position showing the equity and liabilities at 31 August 2018.

B Limited
Extract from the Statement of Financial Position at 31 August 2018

.[6]

- (d) Suggest **two** possible reasons why the directors of B Limited transferred \$25 000 to the general reserve.

1.....

[2] [View document](#)

. [2]

- (e) Explain **two** differences between ordinary shares and preference shares.

1.....

[View Details](#) | [Edit](#) | [Delete](#)

¹ See, e.g., *United States v. Ladd*, 10 F.3d 1132, 1136 (11th Cir. 1993) (“[A]nyone who has ever been to a bar or restaurant knows that it is common for people to leave a tip for waitstaff.”); *United States v. Gandy*, 10 F.3d 1132, 1136 (11th Cir. 1993) (“[A]nyone who has ever been to a bar or restaurant knows that it is common for people to leave a tip for waitstaff.”).

- (f) Distinguish between cumulative preference shares and non-cumulative preference shares.

.....

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- (g) Complete the following table by placing a tick (✓) in the correct column to indicate where each item would appear in the financial statements.

The first one has been completed as an example.

	Income statement	Statement of changes in equity	Statement of financial position
Ordinary share dividend paid		✓	
Director's salary			
Other receivables			

[2]

[Total: 20]

- 4 The following information was available from the books of Linrae.

Totals for the year ended 30 September 2017

	\$
Revenue	240 000
Cost of sales	180 000
Expenses (excluding depreciation)	35 000
Depreciation	10 000
Balance at 30 September 2017	
Linrae's capital	100 000

REQUIRED

- (a) Calculate the following for the year ended 30 September 2017. Show your answers to **two** decimal places.

	Workings	Answer
Percentage mark-up		
Percentage profit for the year to revenue (profit margin)		
Return on capital employed (ROCE)		

[6]

On 1 October 2017 Linrae took a 10% bank loan for \$50 000 to expand her business. The loan is repayable in 5 years.

At the end of the year's trading on 30 September 2018 the following information was available.

- 1 Revenue for the year was \$308 000.
 - 2 The mark-up for the year was 40%.
 - 3 Expenses for the year (excluding bank loan interest and depreciation) had increased by \$4000.
 - 4 The bank loan interest had not been paid.
 - 5 Depreciation for the year had increased by 20%.
 - 6 Linrae's capital at 30 September 2018 was \$110 000.

REQUIRED

- (b) Prepare the income statement for the year ended 30 September 2018.

Linrae
Income Statement for the year ended 30 September 2018

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.....

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.....

.....

.....

.....

.....

.....

. [4]

- (c) Explain why Linrae's capital had increased over the year even though she had not introduced any additional capital.

[2]

.[2]

- (d) Calculate the following for the year ended 30 September 2018. Show your answers to two decimal places.

	Workings	Answer
Percentage profit for the year to revenue (profit margin)		
Return on capital employed (ROCE)		

[4]

- (e) Analyse the profitability of Linrae's business for the two years ended 30 September 2017 and 30 September 2018.

.[4]

[Total: 20]

- 5 Aung and Khin are in partnership. The partnership agreement states that they share profits and losses in the ratio 3:2 respectively.

Interest is charged on drawings (excluding partnership salary) at the rate of 5%. A salary of \$9000 per annum is paid to Khin.

The following balances were extracted from the books on 30 September 2018.

	\$
Capital accounts	
Aung	50 000
Khin	50 000
Current accounts at 1 October 2017	
Aung	3 000 Debit
Khin	6 000 Credit
Drawings	
Aung	9 000
Khin	14 000
Land and buildings (at cost)	140 000
Motor vehicles (at cost)	42 000
Office equipment (at cost)	64 000
Provisions for depreciation at 1 October 2017	
Land and buildings	29 600
Motor vehicles	10 000
Office equipment	46 000
Provision for doubtful debts	500
8% Bank loan (repayable 31 March 2020)	60 000
Bank interest paid	3 600
Bank	5 200 Debit
Revenue	309 000
Purchases	174 000
Returns inwards	9 100
Trade payables	45 200
Trade receivables	31 000
Inventory at 1 October 2017	19 700
Marketing expenses	25 000
Other operating expenses	17 250
Wages and salaries	40 500
Motor vehicle expenses	9 200
Commission receivable	12 250
Rent paid	12 000

Additional information at 30 September 2018

- 1 Inventory was valued at \$36 000.
- 2 Marketing expenses prepaid were \$4000.
- 3 Commission receivable of \$1750 was due.
- 4 Depreciation is to be charged on all non-current assets as follows:
 - (i) Buildings at the rate of 4% per annum on cost. The land cost \$80 000 and is not depreciated.
 - (ii) Motor vehicles at the rate of 25% per annum using the diminishing (reducing) balance method
 - (iii) Office equipment at the rate of 10% per annum on cost.
- 5 The salary of Khin was paid and recorded in the wages and salaries account.
- 6 A payment of \$6800 made by cheque to a trade supplier, had not been recorded in the books.
- 7 Trade receivables of \$5000 were irrecoverable. The provision for doubtful debts is to be maintained at 5%.

REQUIRED

- (a) Prepare the income statement and appropriation account of Aung and Khin for the year ended 30 September 2018.

Aung and Khin
Income Statement and Appropriation Account for the year ended 30 September 2018.

- (b) Prepare the current accounts for the year ended 30 September 2018. Balance the accounts and bring down the balances on 1 October 2018.

Current accounts

[5]

- (c) Prepare the statement of financial position of Aung and Khin at 30 September 2018.

Aung and Khin Statement of Financial Position at 30 September 2018

[15]

[Total]: 40]

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