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Cambridge O Level

Cambridge Assessment International Education
Cambridge Ordinary Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

5227292005

PRINCIPLES OF ACCOUNTS **7110/21**

Paper 2 **May/June 2019**

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.

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1 Wilson maintains a three column cash book in his business. On 1 March 2019 the following balances were available.

	$
Cash	10
Bank overdraft	35

During March the following transactions occurred.

March 3 Cash sales, $570

10 Paid wages, $65, and general expenses, $19, in cash

12 Banked cash, $420

18 Cheque, $40, received from Glover in February was returned by the bank marked 'refer to drawer'

20 Settled Lou's account of $250 by cheque after deducting 4% cash discount

25 Drawings taken $50 in cash, and $300 by cheque

30 Received a cheque, $285, from Fred after he had deducted 5% cash discount. This was paid into the bank.

REQUIRED

(a) Prepare the three column cash book for March 2019 on the next page. Balance the cash book and bring down the balances on 1 April 2019.

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Cash Book

Date	Details	Discount Allowed $	Cash $	Bank $	Date	Details	Discount Received $	Cash $	Bank $

[10]

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(b) Complete the table by placing a tick (✓) in the appropriate box to indicate how the cash book can be classified.

as a ledger account only	as a book of prime (original) entry only	as a ledger account and a book of prime (original) entry

[1]

(c) Name the type of entry made in the cash book on 12 March.

..... [1]

(d) State **two** possible reasons why the bank returned the cheque from Glover on 18 March.

1 .....

.....

2 .....

.....
[2]

(e) State the purpose of allowing Fred cash discount on 30 March.

.....

..... [1]

Wilson received a bank statement which showed a credit bank balance of $345 on 31 March 2019.

Wilson compared the entries in the bank statement with those in his cash book and found that the following were **not** recorded on the bank statement.

1 the cheque paid to Lou on 20 March

2 the cheque for drawings paid on 25 March

3 the cheque received from Fred and banked on 30 March

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REQUIRED

(f) Prepare the bank reconciliation statement at 31 March 2019. Start with the balance recorded in the bank statement.

Bank Reconciliation Statement at 31 March 2019

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..... [5]

[Total: 20]

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2 Catherine prepared a trial balance on 30 April 2019. The trial balance did not agree.

She opened a suspense account. On inspection of the books she found the following errors.

1 Motor vehicle expenses, $500, had been debited to the bank account and credited to the motor vehicle expenses account.

2 Wages, $800, had been debited in the rent payable account.

3 A return of goods to a supplier, Ahmed, $595, had been incorrectly recorded in the purchases returns journal as $295.

4 The discount received total in the cash book, $68, had not been entered in the discount received account.

5 A cash sale, $125, had been entered in the sales account as $215.

REQUIRED

(a) Prepare journal entries to correct the errors 1 – 5. Narratives are **not** required.

General journal

	Dr	Cr
	$	$

[10]

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(b) Name the type of error in 1 – 3.

1 .....

2 .....

3 .....
[3]

(c) Prepare the suspense account after the correction of errors 1 – 5.
Show the original difference recorded in the trial balance.

Suspense account

Date	Details	$	Date	Details	$

[3]

Catherine completed a number of transactions relating to her motor vehicles.

REQUIRED

(d) Complete the table by placing a tick (✓) to show whether **each** of the following transactions is revenue expenditure, a revenue receipt, capital expenditure or a capital receipt.
The first item has been completed as an example.

	revenue expenditure	revenue receipt	capital expenditure	capital receipt
purchased fuel for motor vehicle	✓			
paid for delivery of new motor vehicle				
charged customers for hire of motor vehicle				
banked proceeds from sale of an old motor vehicle for scrap				
paid insurance for motor vehicle				

[4]

[Total: 20]

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3 Caden and Shen had traded as sole traders for many years.

On 1 May 2018 they formed a partnership. The following assets and liabilities were recorded in the books of the sole traders.

	Caden		Shen	
	$		$	
Non-current assets	25 000		40 000	
Inventory	8 000		14 000	
Trade receivables	5 400		2 700	
Bank	3 500	Credit	1 500	Debit
Trade payables	4 900		7 100	

The partners agreed that the value of Shen's non-current assets was $30 000 and the trade receivables $1600. They also agreed that Caden's goodwill was to be valued at $15 000.

REQUIRED

(a) Calculate the capital to be brought into the partnership by **each** partner.

Caden

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..... [2]

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Shen

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..... [2]

(b) State **two** possible reasons why the business of Caden has goodwill but the business of Shen does not have goodwill.

1 .....

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2 .....

.....
[2]

Caden and Shen prepared a formal partnership agreement which included the following terms.

1 Goodwill would **not** be retained in the books of the partnership.

2 Profits and losses would be shared Caden three-fifths, Shen two-fifths.

3 Interest on capital would be 4% per annum.

4 Interest on drawings, excluding partner's salary, would be 8% per annum.

5 Shen would receive a salary of $3000 per annum.

REQUIRED

(c) State **one** reason why it is important for partners to prepare a formal partnership agreement.

.....

..... [1]

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(d) State **two** differences between a partner's capital account and a partner's current account.

1 .....

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2 .....

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[2]

(e) Prepare the capital accounts of the partners at 1 May 2018 showing the removal of the goodwill. Balance the accounts and bring down the balances.

Capital accounts

Date	Details	Caden	Shen	Date	Details	Caden	Shen
		$	$			$	$

[4]

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At the end of the first year of trading on 30 April 2019, the following was recorded in the books.

		$
Profit for the year		13 120
Drawings		
	Caden	9 500
	Shen (excluding salary)	6 500

REQUIRED

(f) Prepare the appropriation account for the year ended 30 April 2019.

Caden and Shen
Appropriation Account for the year ended 30 April 2019

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..... [7]

[Total: 20]

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4 Celia is in business buying and selling goods on credit.

The following information is available:

At 1 May 2018	$
Inventory	17 500

For the year ended 30 April 2019

	$
Cost of sales	350 000

Percentage of gross profit to sales revenue is 30%

At 30 April 2019

	$
Inventory	22 500
Trade payables	90 000
Trade receivables	85 000
Bank overdraft	20 000

REQUIRED

(a) Calculate the following on 30 April 2019. The previous year's figures are shown in the last column.

	Workings	30 April 2019	30 April 2018
Revenue for the year			$320 000
Rate of turnover of inventory (to **one** decimal place)			12.0 times
Current ratio (working capital ratio) (to **two** decimal places)			1.80:1
Quick ratio (acid test ratio) (to **two** decimal places)			0.90:1

[8]

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(b) Comment on the changes in Celia's business which have occurred between 30 April 2018 and 30 April 2019.

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..... [6]

Celia is concerned that her balance at the bank is an overdraft and she wishes to return to a positive bank balance as soon as possible. She has decided to increase the mark-up on goods sold and has made the following estimates for May:

	$
Revenue	25 000
Purchases	7 500
Expenses paid	4 500
Trade payables 31 May 2019	84 000
Trade receivables 31 May 2019	75 000

All payments and receipts will be by cheque.

REQUIRED

(c) Calculate the following:

	Workings	Answer $
Receipts from trade receivables in May 2019		
Payments made to trade payables in May 2019		
Bank balance at 31 May 2019		

[6]

[Total: 20]

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5 Leo is in business as a sole trader. The following balances were extracted from his books on 31 March 2019.

	$
Capital	80 000
Drawings	25 000
Non-current assets (at cost)	
Land and buildings	150 000
Computer equipment	46 000
Fixtures and fittings	12 000
Provisions for depreciation	
Land and buildings	9 000
Computer equipment	18 000
Fixtures and fittings	6 600
Wages and salaries	87 000
Computer repairs	21 600
Commission receivable	12 300
Trade payables	31 850
Trade receivables	42 000
Revenue	475 000
Purchases	255 000
Returns outwards	7 900
Inventory at 1 April 2018	31 000
Rent and rates	22 750
Provision for doubtful debts	3 700
Marketing expenses	12 600
5% bank loan (repayable June 2019)	20 000
4% bank loan (repayable May 2023)	60 000
Bank loan interest paid	2 100
Heat and light	9 750
General expenses	14 300
Bank overdraft	6 750

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Additional information at 31 March 2019

1 Inventory was valued at $26 400.

2 Leo had taken goods valued at $3200. No entries had been made in the books.

3 A computer costing $8000 had been recorded in the computer repairs account.

4 Computer repairs of $2100, paid by cheque, had not been recorded in the books.

5 Rent of $2000 was owing and rates of $450 were prepaid.

6 Marketing expenses included a payment of $700 for a six-months' campaign ending 30 June 2019.

7 The 5% bank loan was taken out in 2016. The 4% bank loan was taken out on 1 August 2018.

8 Depreciation is to be charged on all non-current assets owned at the end of the year as follows:

Land costing $75 000	not depreciated
Buildings	2% per annum on cost
Computers	20% per annum using diminishing (reducing) balance method
Fixtures and fittings	10% per annum using the straight-line method

9 Trade receivables of $4000 are irrecoverable. The provision for doubtful debts is to be maintained at 5%.

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REQUIRED

(a) Prepare the income statement for the year ended 31 March 2019.

Leo
Income Statement for the year ended 31 March 2019

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(b) Prepare the statement of financial position at 31 March 2019.

Leo
Statement of Financial Position at 31 March 2019

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[20]

[Total: 40]

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