UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

CANDIDATE NAME	

CENTRE NUMBER							CANDIDATE NUMBER					

4883792400

ACCOUNTING **0452/03**

Paper 3 **May/June 2007**

1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write our Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use a soft pencil for any diagrams or graphs.
Do not use staples, paper clips, highlighters, 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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

This document consists of **17** printed pages and **3** blank pages.

1 Shilpa Bassra is a trader who keeps a full set of accounting records. She divides her ledger into three specialist areas – nominal (general) ledger, purchases (creditors) ledger and sales (debtors) ledger.

REQUIRED

(a) State **one** advantage of dividing the ledger into these three areas.

....

.... [1]

Shilpa Bassra's books of original (prime) entry show the following transactions for March 2007:

Purchases Journal

2007		$	$
March 8	Omar El Gamal		
	Goods		440
21	Mohammed El Wakil		
	Goods	380	
	Trade discount	76	304
31	Total for month		744

Purchases Returns Journal

2007		$	$
March 24	Mohammed El Wakil		
	Goods	160	
	Trade discount	32	128
31	Total for month		128

Cash Book (credit side)

		Discount Received	Cash	Bank
2007		$	$	$
March 19	Omar El Gamal	11		429
26	Mohammed El Wakil		110	
31	Cash purchases for month		990	

REQUIRED

(b) Write up the accounts of Omar El Gamal and Mohammed El Wakil as they would appear in Shilpa Bassra's purchases (creditors) ledger for the month of March 2007. There were no balances on these accounts on 1 March 2007.

Where traditional "T" accounts are used they should be balanced and, where appropriate, the balance brought down on 1 April 2007. Where three column running balance accounts are used the balance column should be updated after each entry.

For Examiner's Use

Purchases ledger
Omar El Gamal account

Mohammed El Wakil account

[9]

(c) Write up the purchases account and the purchases returns account as they would appear in Shilpa Bassra's nominal (general) ledger for the month of March 2007.

Nominal ledger
Purchases account

Purchases returns account

....

....

.... [3]

Shilpa Bassra is considering maintaining control accounts for her purchases (creditors) and sales (debtors) ledgers.

REQUIRED

(d) State **two** advantages to Shilpa Bassra of preparing control accounts.

(i) ....

....

....

(ii) ....

....

.... [2]

(e) State whether **each** of the following items would appear in Shilpa Bassra's sales ledger control account as a debit or a credit entry. If the item would not appear write "No entry."

The first one has been completed as an example.

	Item	Entry in sales ledger control account
(i)	Sales returns	*credit*
(ii)	Cheques received from debtors	....
(iii)	Trade discount allowed to debtors	....
(iv)	Contra items transferred to purchases ledger	....

[3]

[Total: 18]

BLANK PAGE

Question 2 is on the next page.

For Examiner's Use

2 James Kanu is a trader who sells goods on credit. He offers his credit customers a cash discount of 3 % provided the account is paid within 30 days. He has applied the accounting principle of prudence and maintains a provision for doubtful debts. This provision amounted to $150 on 1 February 2006.

REQUIRED

(a) State **two** effects on his final accounts of applying the principle of prudence.

(i) ....

....

(ii) ....

.... [2]

(b) Name **one** other accounting principle which James Kanu is applying by maintaining a provision for doubtful debts.

.... [1]

James Kanu's transactions during the financial year ended 31 January 2007 included the following:

2006

Feb 4	Sold goods, $900, on credit to J. Ukata.
Mar 1	J. Ukata paid his account by cheque after deducting the cash discount to which he was entitled.
	He purchased further goods, $80, on credit.
Dec 31	Received cash, $35, from W. Blanco whose debt had been written off in June 2005.

2007

Jan 31	As J. Ukata could not be found his account was written off.
	James Kanu increased the provision for doubtful debts by $50.

REQUIRED

(c) Write up the following accounts in James Kanu's ledger for the year ended 31 January 2007.

(i) J. Ukata account

(ii) Bad debts account

(iii) Bad debts recovered account

(iv) Provision for doubtful debts account

Where traditional "T" accounts are used they should be balanced and, where appropriate, the balance brought down on 1 February 2007. Where three column running balance accounts are used the balance column should be updated after each entry.

(i) J. Ukata account

....

....

....

....

....

....

....

(ii) Bad debts account

....

....

....

....

....

(iii) Bad debts recovered account

....

....

....

....

....

(iv) Provision for doubtful debts account

....

....

....

....

....

....

.... [12]

(d) Assuming that James Kanu did **not** maintain a provision for doubtful debts, state how **each** of the following would be affected.

Where the item is not affected write "No effect." Where the item is affected insert the **amount** by which it is overstated or understated.

The first has been completed as an example.

	Item	Overstated	Understated
		$	$
(i)	Gross profit for the year ended 31 January 2007	*No effect*	*No effect*
(ii)	Net profit for the year ended 31 January 2007	....	------------------------
(iii)	Total of current assets in the balance sheet at 31 January 2007	....	------------------------

[4]

[Total: 19]

3 Jamil and Sara Suliman are in partnership.

On 30 April 2007 they discovered that a quantity of stock was missing from the warehouse. This loss is fully covered by their insurance company.

They are able to provide the following information for the year ended 30 April 2007:

	$
Sales	30 000
Purchases	26 000
Stock 1 May 2006	5 000
Stock in warehouse 30 April 2007	4 500

The gross profit margin is 20 %.

REQUIRED

(a) Calculate **by means of a trading account** the value of the missing stock on 30 April 2007.

Jamil and Sara Suliman
Trading Account for the year ended 30 April 2007

....

....

....

....

....

....

....

....

....

....

.... [8]

The partners provide the following additional information:

		$
At 1 May 2006		
Current account –	Jamil	200 debit
	Sara	600 credit
For the year ended 30 April 2007		
Running expenses		4600
Interest on capital –	Jamil	2000
	Sara	1000
Drawings –	Jamil	3100
	Sara	2800

Profits and losses are shared equally.

REQUIRED

(b) Using your answer to **(a)** and the information above calculate the net profit for the year ended 30 April 2007. Show your workings.

....

....

.... [1]

(c) Calculate each partner's share of the residual profit or loss for the year ended 30 April 2007. Show your workings.

....

....

....

....

....

....

.... [3]

For Examiner's Use

(d) Prepare the partners' current accounts as they would appear in the ledger for the year ended 30 April 2007.

Where traditional "T" accounts are used they should be balanced and the balances brought down on 1 May 2007. Where three column running balance accounts are used the balance column should be updated after each entry.

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

.... [5]

On 1 May 2007 Jamil and Sara decided to admit their sister Fatima to the partnership. Jamil, Sara and Fatima agreed to share profits and losses 2 : 2 : 1.

Goodwill was valued at $20 000 on 1 May 2007, but did not appear in the books. The partners agreed that adjustments should be made for goodwill, but that a goodwill account was not to be maintained on the books permanently.

REQUIRED

(e) Complete the following tables to show the partners what entries are required in the ledger.

It is **not** necessary to prepare the ledger accounts.

(i) To enter goodwill on the books.

account(s) to be debited	$	account(s) to be credited	$
....	....	....	....
....	....	....	....
....	....	....	....

(ii) To write off the goodwill.

account(s) to be debited	$	account(s) to be credited	$
....	....	....	....
....	....	....	....
....	....	....	....

[7]

[Total: 24]

BLANK PAGE

Question 4 is on the next page.

4 Peter Mpho started business on 1 February 2006. After the preparation of his trading and profit and loss account for his first year of trading, the following balances remained on his books at 31 January 2007:

	$
Capital	145 000
Stock	17 500
Debtors	19 200
Creditors	29 000
Premises at cost	90 000
Equipment at cost	50 000
Bank	300 debit
Petty cash	100
Drawings	10 400
Net profit for the year	13 500

The following matters were then discovered:

1 No adjustment had been made for wages owing at 31 January 2007 amounting to $200.

2 During the year Peter Mpho had taken goods costing $600 for his own use. This transaction had not been recorded in the accounting records. This does **not** affect the closing stock on 31 January 2007.

3 Equipment should have been revalued on 31 January 2007. The estimated value at that date was $47 000.

4 The bank statement received on 31 January showed that the bank had debited the business's bank account with charges of $1050. This had not been recorded in the accounting records.

5 The cost of delivering goods to a customer, $150, had been debited to the carriage outwards account. The customer had agreed to pay the delivery cost and this amount should have been debited to his account.

REQUIRED

(a) Prepare the balance sheet of Peter Mpho at 31 January 2007 taking the above matters into account.

The calculation of the corrected net profit should be shown **either** within the balance sheet or as a separate calculation.

You may use the space on page 16 for your workings.

For Examiner's Use

Peter Mpho
Balance Sheet at 31 January 2007

[14]

Peter Mpho knows that he will soon have to make decisions about the accounting policies he needs to apply.

REQUIRED

(b) List **four** objectives which Peter Mpho must consider when selecting accounting policies.

The first has been completed as an example.

(i) *Relevance* ....

(ii) ....

(iii) ....

(iv) .... [3]

(c) Explain to Peter Mpho what is meant by the term "relevance".

....

....

....

.... [2]

[Total: 19]

Use the space below for your workings

BLANK PAGE

Question 5 is on the next page.

5 Mona El Tawil is a sole trader. Her financial year ends on 31 December. She provided the following information:

For the year ended 31 December 2006

	$	$
Sales – cash	115 000	
credit	275 000	390 000
Purchases – cash	5 000	
credit	465 000	470 000

At 31 December 2006

	$
Debtors	29 000
Creditors	40 000
Stock	34 000
Bank	7 000 debit
Fixed assets	180 000

Mona El Tawil decides to compare her position with that at the end of the previous financial year.

REQUIRED

(a) Complete the table on page 19 to show the ratios for Mona El Tawil's business for the year ended 31 December 2006. You may use the space below for your workings.

Calculations should be correct to **two** decimal places for **(i)** and **(ii)** and should be rounded up to the next whole day for **(iii)** and **(iv)**.

Use the space below for your workings

Place the ratios you have calculated for **5 (a)** into the table below.

	Ratio	Year ended 31 December 2005	Year ended 31 December 2006
(i)	Current ratio	2.25 : 1	
(ii)	Quick ratio	0.75 : 1	
(iii)	Collection period for debtors	30 days	days
(iv)	Payment period for creditors	24 days	days

[6]

(b) Explain why the quick ratio is more reliable than the current ratio as an indicator of liquidity.

....

....

....

.... [2]

(c) State whether Mona El Tawil will be satisfied with the change in the quick ratio.

.... [1]

(d) Suggest **one** possible reason which could account for the change in the current ratio.

....

.... [2]

(e) State and explain whether you think Mona El Tawil will be satisfied with the change in the debtors' collection period.

(i) Will she be satisfied? .... [1]

(ii) Explanation ....

.... [2]

For Examiner's Use

(f) Explain how the change in the debtors' collection period may have affected the payment period for creditors.

....

....

.... [2]

(g) Name **one** other ratio which would help Mona El Tawil assess the liquidity position.

.... [1]

Mona El Tawil would like to compare her results with those of other businesses.

She is aware that even comparing with a business of a similar size dealing in similar goods can produce misleading results.

REQUIRED

(h) List **four** things Mona El Tawil should consider when comparing her results with those of a similar business.

The first has been completed as an example.

(i) *There may be differences that affect profitability e.g. one business may rent premises and the other business may own premises.*

(ii) ....

....

....

(iii) ....

....

....

(iv) ....

....

.... [3]

[Total: 20]