

Centre Number	Candidate Number	Name
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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ACCOUNTING

0452/03

Paper 3

October/November 2006

1 hour 45 minutes

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 a soft pencil for rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

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	
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Total	

This document consists of **15** printed pages and **5** blank pages.



- 1 The following Trial Balance was extracted from the books of Salem Ahmed at 31 July 2006.

	\$	\$
Capital		62 000
Drawings	7 200	
Premises at cost	38 000	
Fixtures at valuation	7 800	
Equipment at cost	5 000	
Provision for depreciation of equipment		950
Provision for doubtful debts		130
Debtors	9 000	
Bad debts recovered		170
Creditors		7 970
Bank		4 755
Stock 1 August 2005	10 260	
Sales		89 500
Purchases	65 700	
Sales returns	1 100	
Carriage outwards	210	
Discount allowed	600	
Discount received		610
Administration expenses	<u>21 215</u>	
	<u>166 085</u>	<u>166 085</u>

Additional information

- 1 During the year ended 31 July 2006 Salem took goods costing \$1260 for his own use. No entries had been made in the accounting records.
- 2 The provision for doubtful debts is to be maintained at 2% of the debtors.
- 3 Equipment is to be depreciated at 10% per annum using the reducing balance method.
- 4 Fixtures were valued at \$7250 on 31 July 2006. No fixtures were bought or sold during the year ended 31 July 2006.
- 5 Because of illness, Salem was unable to value the stock on 31 July 2006. Salem's gross profit margin is 25%.

REQUIRED

Prepare the Trading and Profit and Loss Account of Salem Ahmed for the year ended 31 July 2006.

The value of the stock on 31 July 2006 should be clearly shown in the Trading Account.

A Balance Sheet is **not** required.

- 2 Amina Nawaz is a sole trader. Her financial year ends on 31 August. The trial balance prepared on 31 August 2006 showed a shortage on the credit side of \$1450. Amina entered this in a suspense account.

The following errors were later discovered:

- 1 Goods costing \$750, taken by Amina for her own use, had been debited to her drawings account, but no other entry had been made.
- 2 \$250 paid to Sabina Khan had been debited to the account of Robina Khan, another creditor, in the purchases ledger.
- 3 \$150 received in cash from a debtor, whose account had been written off in 2005, had been debited to both the cash account and bad debts account.

REQUIRED

- (a) Prepare the entries in Amina Nawaz's journal to correct the above errors.

Narratives are **not** required.

Journal		
	Debit \$	Credit \$
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[7]

- (b) Prepare the suspense account in Amina Nawaz’s ledger to show the required amendments. Start with the balance arising from the difference on the trial balance.

Where a traditional “T” account is used it should be balanced or totalled as necessary. Where a three column running balance account is used the balance column should be up-dated after each entry.

Suspense account

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..... [5]

- (c) Using your answer to (b) state whether you consider that all the errors on Amina’s books have been discovered. Give a reason for your answer.

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..... [2]

Amina Nawaz has a large number of debtors. She is considering preparing monthly control accounts for her sales ledger. She believes that this will help to locate errors if the trial balance fails to balance.

REQUIRED

(d) State **three** advantages to Amina of preparing a sales ledger control account other than the location of errors.

- (i)
 -
 - (ii)
 -
 - (iii)
 -
- [3]

(e) Explain what is meant by a contra entry in connection with control accounts.

-
 -
 -
- [2]

(f) State where the following items will appear in a sales ledger control account. If the item will not appear in a sales ledger control account write "No entry".

The first one has been completed as an example.

	Item	Entry in sales ledger control account
(i)	Sales returns	<i>credit</i>
(ii)	Bad debts
(iii)	Provision for doubtful debts
(iv)	Interest charged on overdue account

[3]

[Total: 22]

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- 3 The accounts maintained by non-trading organisations such as clubs and societies often use different terms to those used in the accounts of a trading business.

REQUIRED

- (a) Complete the following table to name the equivalent terms used by a non-trading organisation.

The first one has been completed as an example.

	Trading business	Non-trading organisation
(i)	Cash book	<i>Receipts and Payments Account</i>
(ii)	Net loss
(iii)	Capital
(iv)	Profit and Loss Account

[3]

The treasurer of El Nil Sailing Club maintains a full set of accounting records. The following account appears in the ledger of El Nil Sailing Club.

Subscriptions account					
2005		\$	2005		\$
Aug 1	Balance b/d	750	Aug 1	Balance b/d	300
2006			2006		
July 31	Income & Expenditure	4500	July 31	Bank	5850
	Balance c/d	<u>900</u>			
		<u>6150</u>			<u>6150</u>
			2006		
			Aug 1	Balance b/d	900

For candidates who are not familiar with the layout of the account shown above, an alternative presentation is provided.

Subscriptions account				
2005		Debit	Credit	Balance
		\$	\$	\$
Aug 1	Balances	750	300	450 Dr
2006				
July 31	Bank		5850	5400 Cr
	Income & Expenditure	4500		900 Cr

REQUIRED

- (b) (i) Explain **each** of the following entries in the subscriptions account as it appears in the ledger of El Nil Sailing Club. State where the double entry for **each** transaction would be made.

The first one has been completed as an example.

2005
 Aug 1 Balance \$300
 Explanation *This is the total subscriptions paid by members during the financial year ended 31 July 2005 which relate to the following financial year.*
 Double entry *Debit subscriptions account for year ended 31 July 2005*

2005
 Aug 1 Balance \$750
 Explanation

.....

Double entry

2006
 July 31 Bank \$5850
 Explanation

.....

Double entry

2006
 July 31 Income and Expenditure \$4500
 Explanation

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Double entry [6]

- (ii) Explain the significance of the \$900 shown at the end of the subscriptions account and state where this amount will appear in El Nil Sailing Club's Balance Sheet at 31 July 2006.

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..... [2]

The treasurer of El Nil Sailing Club provided the following information relating to the year ended 31 July 2006. All receipts were paid into the bank and all payments were made by cheque.

	\$
Bank balance at 1 August 2005	6 300 debit
Purchase of new boat	13 000
Repairs to boat	90
Proceeds of sale of old boat	280
Insurance	750
General expenses	560
Competition entrance fees received	690
Cost of competition prizes	420

Additional information

- 1 Details of the subscriptions are provided in the subscriptions account shown above.
- 2 At 31 July 2006 insurance prepaid amounted to \$150 and general expenses outstanding amounted to \$30.

REQUIRED

(c) Using the information above and the subscriptions account shown earlier in the question, prepare the Receipts and Payments Account of El Nil Sailing Club for the year ended 31 July 2006.

El Nil Sailing Club
Receipts and Payments Account for the year ended 31 July 2006

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..... [10]

[Total: 21]

4 David Parnell is a trader. His financial year ends on 30 September. He purchased the following motor vehicles on credit from Peter Drury on 1 October 2004.

- Motor vehicle KUA 468 costing \$20 000
- Motor vehicle VWU 503 costing \$16 000

David Parnell decided that depreciation should be calculated on motor vehicles owned at 30 September each year at the rate of 25% per annum, using the straight line method. A full year's depreciation should be provided in the year of purchase, but no depreciation should be provided in the year of disposal.

On 1 April 2006 David Parnell decided that only one motor vehicle was required and he sold motor vehicle VWU 503 on credit to Remuera Traders for \$12 500.

REQUIRED

(a) (i) Name **one** accounting principle which is applied when fixed assets are depreciated.

..... [1]

(ii) Explain why the accounting principle named in (i) is applied when providing for depreciation of fixed assets.

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..... [2]

(b) Write up the following accounts in David Parnell's ledger for **each** of the years ended 30 September 2005 and 30 September 2006:

- (i) Motor vehicles account
- (ii) Provision for depreciation of motor vehicles account
- (iii) Disposal of motor vehicles account

Where traditional "T" accounts are used they should be balanced at the end of each year and, where appropriate, the balance brought down on the first day of the following financial year. Where three column running balance accounts are used the balance column should be up-dated after each entry.

(i) Motor vehicles account

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(ii) Provision for depreciation of motor vehicles account

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(iii) Disposal of motor vehicles account

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..... [16]

(c) Using your answer to (b), state the entries in relation to motor vehicles which will appear in David Parnell's Profit and Loss Account for the year ended 30 September 2006. State whether the Profit and Loss Account would be debited or credited for each entry.

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

[Total: 21]

- 5 Maria Mafule is a sole trader. She sells leather goods to retail shops. Her financial year ends on 30 September. She provided the following information:

For the year ended 30 September 2006

	\$	\$
Sales cash	13 000	
credit	<u>47 000</u>	60 000
Purchases cash	5 000	
credit	<u>39 000</u>	44 000

At 30 September 2006

	\$
Stock	3900
Debtors	5200
Creditors	4200
Bank overdraft	2800

Maria decides to compare her liquidity position on 30 September 2006 with that on 30 September 2005.

REQUIRED

- (a) Complete the table on the following page to show the ratios for Maria's business for the year ended 30 September 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).

Workings

Place the ratios you have calculated into the box below.

	Ratio	Year ended 30 September 2005	Year ended 30 September 2006
(i)	Current ratio	2.39 : 1	
(ii)	Quick ratio	1.06 : 1	
(iii)	Collection period for debtors	34 days	
(iv)	Payment period for creditors	26 days	

[6]

(b) For **each** of the following ratios suggest **one** possible reason which could account for the change in the ratio between 30 September 2005 and 30 September 2006.

Current ratio

.....

Quick Ratio

.....

[2]

(c) For **each** of the following ratios suggest **two** possible reasons which could account for the change in the ratio between 30 September 2005 and 30 September 2006.

Collection period for debtors

(i)

.....

(ii)

.....

Payment period for creditors

(i)

.....

(ii)

..... [4]

Maria Mafula is interested in comparing her results with those of another business and has obtained the final accounts of some other businesses in the same city.

REQUIRED

(d) Explain **three** factors which Maria should bear in mind when attempting to compare her results with the accounts she has obtained relating to other businesses.

(i)

.....

(ii)

.....

(iii)

..... [6]

[Total: 18]

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