

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

May/June 2005

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 in the spaces provided on the Question Paper.
You may use a soft pencil for rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
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.
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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

- 1 James and Susan Mokobi are in partnership, sharing profits and losses equally. On 1 May 2004 the balances of their current accounts were as follows.

	\$
James	400 debit
Susan	2 000 credit

During the year ended 30 April 2005 the partners made the following drawings.

	\$
James	6 000
Susan	10 000

The partners prepared the following Profit and Loss Appropriation Account for the year ended 30 April 2005.

James and Susan Mokobi
Profit and Loss Appropriation Account for the year ended 30 April 2005

	\$	\$	\$
Net Profit			16 350
Interest on drawings – James		300	
Susan		<u>500</u>	<u>800</u>
			17 150
Interest on capital – James	1 050		
Susan	<u>600</u>	1 650	
Partner's salary – Susan		<u>7 000</u>	<u>8 650</u>
Profit available for distribution to the partners			8 500

On 1 May 2005 James and Susan decided to admit their sister Anna to the partnership. At that date the balances on their capital accounts were as follows.

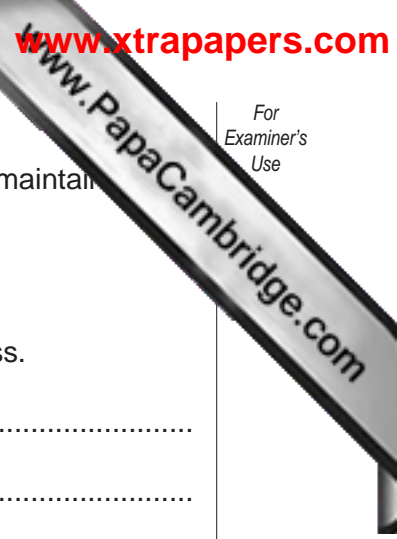
	\$
James	35 000
Susan	20 000

It was agreed that the profits and losses of the new partnership should be shared in the following proportions:

James $\frac{4}{6}$ Susan $\frac{1}{6}$ Anna $\frac{1}{6}$

Anna paid \$26 000 into the firm's bank account on 1 May 2005.

Goodwill was valued at \$12 000 on 1 May 2005 but did not appear in the books. The partners agreed that the capital accounts should be adjusted for Goodwill on the admission of Anna, but that a Goodwill account was **not** to be maintained on the books.



2 Jane Joda started a business on 1 April 2003. Since that time Jane has not maintained financial records.

REQUIRED

(a) Explain **why** Jane should record the financial transactions of her business.

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

(b) Explain to Jane what is meant by business entity.

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

Jane Joda is able to provide the following information relating to her second year of trading.

	\$
Stock 1 April 2004	9 500
Stock 31 March 2005	17 500
Purchases	22 000
Cash sales	6 600
Credit sales	?

The gross profit margin is 20%.

The quality of information in financial statements can be measured in terms of comparability and reliability.

REQUIRED

- (d) (i) Jane Joda could compare her results for the year ended 30 April 2005 with those for the previous year.

State **one** other comparison Jane could make.

.....

.....[2]

- (ii) Suggest **one** way in which Jane might use the results of any comparisons she makes.

.....

.....

.....[2]

- (iii) Jane Joda must be able to rely on the information provided in the financial statements prepared for her business.

One condition which must be present for information to be regarded as reliable is shown below. State **two** other conditions.

1 The information must be capable of being depended on as being a true statement of the transactions and events which are being recorded.

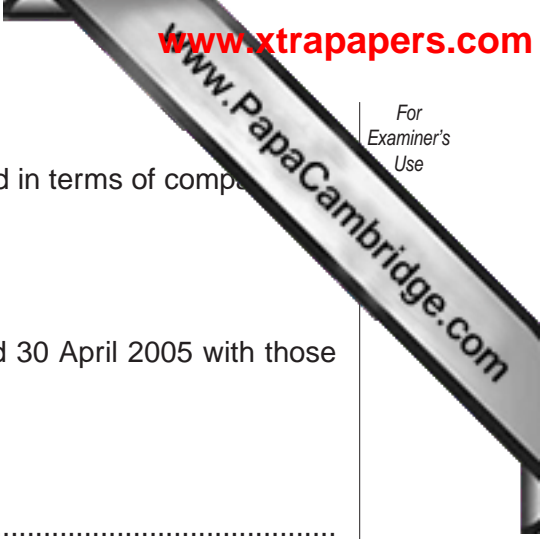
2

.....

3

.....[4]

[Total: 20]



3 David Hoon is a sole trader. He prepared the following Balance Sheet at 28 February 2005.

David Hoon
Balance Sheet at 28 February 2005

	\$	\$	\$
Fixed Assets at book value			45 000
Current Assets			
Stock		12 000	
Debtors		9 500	
Cash		<u>500</u>	
		22 000	
Current Liabilities			
Creditors	6 300		
Bank overdraft	<u>8 200</u>	<u>14 500</u>	<u>7 500</u>
			<u>52 500</u>
Capital			<u>52 500</u>

REQUIRED

(a) (i) Calculate, correct to **two** decimal places, David's current ratio and quick ratio at 28 February 2005. Show your workings.

1 Current ratio

.....

.....

.....

.....

.....

.....[2]

2 Quick ratio

.....

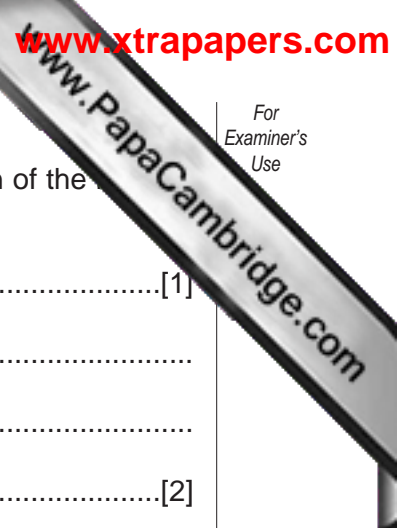
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.....[2]



(ii) State and explain which of the above ratios gives a better indication of the position of David's business.

Name of ratio[1]

Explanation

.....

.....[2]

David Hoon's net profit for the year ended 28 February 2005 was \$4950.

REQUIRED

(b) Calculate, correct to **two** decimal places, David's return on capital employed (ROCE). Base your calculation on the capital at 28 February 2005. Show your workings.

.....

.....

.....

.....[2]

All David Hoon's sales are made on credit. His debtors are allowed a period of 30 days in which to pay their accounts. For the year ended 28 February 2005 his sales were \$69 300.

REQUIRED

(c) (i) Calculate David's collection period for debtors. Show your workings.

.....

.....

.....

.....[2]

(ii) State and explain whether you think David will regard this ratio as satisfactory.

Will David be satisfied?.....[1]

Explanation

.....

.....[1]

David Hoon purchases all his goods on credit. He is allowed a period of 60 days in which to pay his accounts. For the year ended 28 February 2005 his purchases were \$47 600.

REQUIRED

(d) (i) Calculate David's payment period for creditors. Show your workings.

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.....

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.....[2]

(ii) State **one** possible **advantage** to David of paying his creditors before the due date.

.....

.....[1]

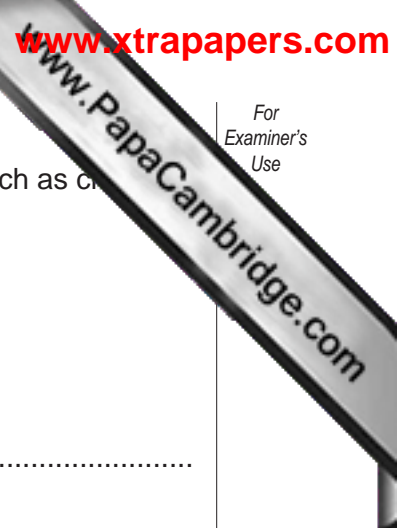
(iii) State **one** possible **disadvantage** to David of paying his creditors before the due date.

.....

.....[1]

[Total: 17]





4 The following terms are used in connection with non-trading organisations such as clubs and societies.

REQUIRED

(a) Explain each of the following terms.

(i) Income and Expenditure Account

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

(ii) Accumulated Fund

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

The Siltones Music Society was formed some years ago. It has 40 members who each pay an annual subscription of \$100.

On 1 April 2004 the Siltones Music Society had the following assets.

	\$	
Musical instruments (book value)	1200	
Balance at bank	2210	
Subscriptions due from members	1000	
Rent of premises prepaid	280	

The treasurer provided the following information relating to the year ended 31 March 2005. All receipts were paid into the bank and all payments were made by cheque.

	\$	\$
Subscriptions received from members		
for the year ended 31 March 2004	1000	
for the year ended 31 March 2005	4000	
for the year ending 31 March 2006	<u>800</u>	5800
Receipts from concert		1900
Expenses of concert		1250
Rent of premises		
for the year ended 31 March 2005	1400	
for the year ending 31 March 2006	<u>420</u>	1820
General expenses		215
Insurance		325
Proceeds of sale of musical instruments		700
Purchase of new musical instruments		3350

REQUIRED

- (c) Prepare the subscriptions account as it would appear in the ledger of the Siltones Music Society for the year ended 31 March 2005.

Show the amount transferred to the Income and Expenditure Account.

Where a traditional '**T**' **account** is used it should be balanced and the balance brought down on 1 April 2005.

Where a **three column running balance** account is used the balance column should be up-dated after each entry.

*Siltone Music Society
Subscriptions account*

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.....[7]

[Total: 21]

Question 5 is on the following page.

5 Ahmed Shafik's financial year ends on 31 January. The totals of his trial balance 31 January 2005 failed to agree. Ahmed entered the difference on the trial balance suspense account.

REQUIRED

(a) Explain **why** it is necessary to open a suspense account when the totals of a trial balance fail to agree.

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

The following errors were later discovered.

- 1 Commission received, \$390, was entered in the cash book but not in the commission received account.
- 2 \$400 paid to Mutua, a supplier, had been credited to the account of Mutola, another supplier.
- 3 The purchase of stationery, \$20, was credited to the cash book and debited to the purchases account.
- 4 No entry had been made for cash discount, \$15, allowed to Limo, a debtor, for prompt payment.
- 5 The total of the sales returns journal, \$420, had been credited to the purchases returns account as \$240.

REQUIRED

(b) Prepare the entries in Ahmed's journal to correct the above errors.

Narratives are **not** required.

Ahmed Shafik
Journal

	Debit \$	Credit \$
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Before the errors were discovered Ahmed calculated that he had made a net profit of \$16 000.

REQUIRED

- (c) Prepare a statement to show the effect of correcting the errors 1–5 on Ahmed's original net profit and calculate the corrected net profit.

If the error does not affect the original net profit write 'No effect'.

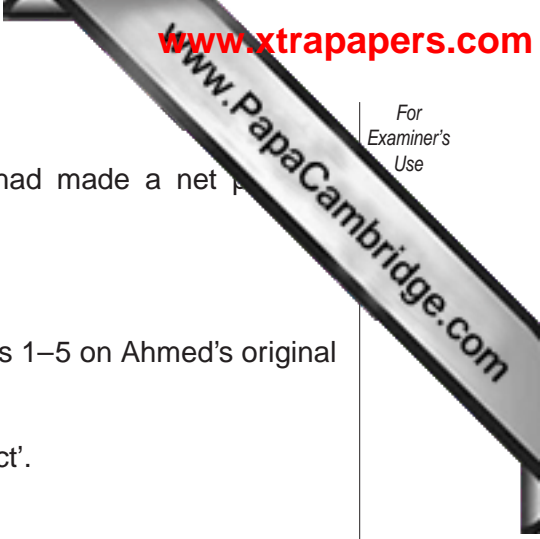
The first correction has been completed as an example.

Ahmed Shafik
Statement of corrected net profit for the year ended 31 January 2005

	\$	
Net profit before corrections	16 000	
	Effect on net profit	
	+	–
	\$	\$
Error 1	390	
2		
3		
4		
5	_____	_____
	_____	_____
Corrected net profit		_____

[5]

[Total: 19]



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