UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

0936974829

ACCOUNTING **0452/21**

Paper 2 **October/November 2010**

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 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.

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1	
2	
3	
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6	
Total	

This document consists of **19** printed pages and **1** blank pages.

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1 The following trial balance was extracted from the books of Robbie McDonald at 30 September 2010.

	Dr $	Cr $
Capital		85 000
Drawings	5 100	
Premises at cost	58 000	
Motor vehicle at cost	6 000	
Equipment at valuation	3 000	
Provision for depreciation of motor vehicle		1 200
Provision for doubtful debts		372
Trade receivables (debtors)	17 600	
Bad debts recovered		160
Trade payables (creditors)		16 250
Bank overdraft		7 728
Inventory (stock) 1 October 2009	19 500	
Revenue (sales)		216 000
Purchases	176 000	
Wages	28 200	
Property tax and insurance	8 900	
Administration expenses	4 410	
	326 710	326 710

Additional information

1 Because of an oversight the inventory (stock) on 30 September 2010 was not valued. Robbie marks up all his stock by 25%.

2 During the year ended 30 September 2010 Robbie took goods costing $1900 for his own use. No entries have been made in the accounting records.

3 The motor vehicle is being depreciated at 20% per annum using the reducing balance method.

4 Equipment was valued at $2340 on 30 September 2010. There were no sales or purchases of equipment during the year.

5 The provision for doubtful debts is to be maintained at 2% of the trade receivables (debtors).

6 A bank statement received on 30 September 2010 included an entry for bank interest of $1550. No entries have been made in the accounting records.

7 The property tax and insurance includes $2400 for insurance of the premises. This represents insurance cover for the sixteen months to 31 January 2011.

REQUIRED

Prepare the income statement (trading and profit and loss account) of Robbie McDonald for the year ended 30 September 2010.

The value of the inventory (stock) on 30 September 2010 should be clearly shown in the income statement (trading and profit and loss account).

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Robbie McDonald
Income Statement (Trading and Profit and Loss Account) for the year ended 30 September 2010

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[20]

[Total: 20]

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2 Suzie Chow is a trader. She maintains a full set of books of prime (original) entry and prepares a sales ledger control account and a purchases ledger control account at the end of each month.

REQUIRED

(a) State **two** advantages of preparing control accounts.

(i) .....

.....

(ii) .....

..... [2]

Suzie Chow provided the following information for the month of September 2010.

		$
September 1	Debit balances in sales ledger	21 976
	Credit balance in sales ledger	54
September 30	Totals for the month	
	Cheques paid to credit suppliers	24 585
	Cheques received from credit customers	21 860
	Cheque received from a credit customer (included in the cheques received shown above) later dishonoured	610
	Discounts allowed	488
	Discounts received	532
	Returns to credit suppliers	414
	Returns by credit customers	391
	Credit sales	22 800
	Bad debts written off	100
	Provision for doubtful debts	550
	Contra entry	78

REQUIRED

(b) Select the relevant figures and prepare Suzie Chow's sales ledger control account for the month ended 30 September 2010.

There is only one balance on the account at the end of the month.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 October 2010.

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

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Suzie Chow
Sales ledger control account

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[11]

(c) Explain the meaning of a contra entry in connection with control accounts and explain why such an entry may be made.

[2]

(d) Explain why the information used to write up Suzie Chow's sales ledger control account is obtained from books of prime (original) entry and **not** from the sales ledger.

[2]

Suzie Chow's financial year ended on 30 September 2010. Her total sales for the year were as follows.

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	$
Cash sales	95 000
Credit sales	275 000

She allows her credit customers a period of 21 days in which to pay their accounts.

REQUIRED

(e) Using the closing balance on the sales ledger control account you prepared in **(b)** and the above information, calculate the debtors' collection period. Your answer should be rounded up to the next whole day.

Show your workings.

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..... [2]

(f) Suggest **three** ways in which the collection period for debtors may be improved.

(i) .....

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(ii) .....

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(iii) .....

..... [3]

[Total: 22]

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3 Karnail Singh is a trader. His financial year ends on 31July.

He maintains a full set of double entry records. His ledger is divided into a sales ledger, a purchases ledger and a nominal (general) ledger.

REQUIRED

(a) Name the ledger in which **each** of the following accounts would appear.

(i) Purchases returns account .....

(ii) Ansari Stores account (a supplier) .....

(iii) Sales account ..... [3]

Karnail Singh rents business premises. The rent is payable monthly in advance.

The rent for the financial year beginning 1 August 2009 was $130 per month. This was increased to $140 per month on 1 May 2010.

On 1 August 2009 two months' rent was outstanding.

During the financial year ended 31 July 2010 Karnail Singh paid rent totalling $1430.

At 31 July 2010 three months' rent was outstanding.

REQUIRED

(b) Write up the rent account as it would appear in Karnail Singh's ledger for the year ended 31 July 2010.

Where a traditional "T" account is used it should be balanced and the balance brought down on 1 August 2010.

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

Karnail Singh
Rent account

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..... [6]

(c) Explain the accruals (matching) principle. Use the rent account you prepared in **(b)** to illustrate your answer.

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..... [3]

In addition to Karnail Singh (the owner), other business people are also interested in the financial statements (final accounts) of Karnail Singh's business.

REQUIRED

(d) List **two** business people (excluding the owner) who would be interested in Karnail Singh's financial statements (final accounts).

In **each** case state **one** reason for that person's interest.

(i) Business person .....

Reason for their interest .....

.....

..... [2]

(ii) Business person .....

Reason for their interest .....

.....

..... [2]

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(e) A person studying the financial statements (final accounts) of a business must be aware that these statements do have limitations and will not provide a complete picture of the performance and position of a business.

State how **each** of the following may be regarded as a limitation of financial statements (final accounts).

(i) Non-financial aspects

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..... [2]

(ii) Historical cost

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..... [2]

[Total: 20]

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4 The financial year of Searle Ltd ends on 31 August.

Searle Ltd has the following capital structure.

Authorised share capital	80 000 ordinary shares of $0.50 each 40 000 4% preference shares of $1 each
Paid-up share capital	60 000 ordinary shares of $0.50 each 25 000 4% preference shares of $1 each
Loan capital	$15 000 3% debentures

During the year ended 31 August 2010 one year's preference share dividend was paid.

On 31 August 2010 one year's interest on debentures was accrued.

On 31 August 2010 the directors recommended the payment of an ordinary share dividend of 5%.

REQUIRED

(a) Explain the difference between authorised share capital and paid-up share capital.

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..... [4]

(b) Calculate the following. Show your workings.

(i) Dividend paid on preference shares (in $)

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..... [2]

(ii) Interest payable on debentures (in $)

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..... [2]

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(iii) Dividend to be paid on ordinary shares (in $)

.....

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..... [2]

(c) Complete the following table to indicate where **each** of the following should appear in the financial statements (final accounts) of Searle Ltd for the year ended 31 August 2010. If the item does not appear write "No entry".

The first has been completed as an example.

	Income statement (profit and loss account)	Appropriation account	Balance sheet
Preference share dividend paid	*No entry*	✓	*No entry*
Debenture interest payable			
Ordinary share dividend payable			

[4]

(d) Calculate the capital employed on 31 August 2010.

Show your workings.

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..... [1]

(e) Using a net profit figure of $11 840, calculate the return on capital employed (ROCE). The calculation should be correct to **two** decimal places.

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Show your workings.

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..... [2]

(f) Explain why the directors of Searle Ltd will be pleased that the return on capital employed (ROCE) is higher than at the end of the previous financial year.

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..... [2]

[Total: 19]

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5 Samuel and Martha Mavuso are in partnership. Their financial year ends on 31 October.

Their partnership agreement provides for interest on capital and interest on drawings. Profits and losses are to be shared in proportion to capital invested.

Martha has suggested that the partnership agreement should be amended so that she can receive an annual partnership salary.

REQUIRED

(a) Suggest **one** reason why Martha Mavuso wishes to amend the partnership agreement.

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.....

..... [2]

On 1 November 2009 the balances on the partners' capital and current accounts were:

	Capital account	Current account
	$	$
Samuel Mavuso	60 000	1 091 debit
Martha Mavuso	40 000	223 credit

During the year ended 31 October 2010 the partners made the following drawings:

	$
Samuel Mavuso	3 100
Martha Mavuso	4 900

The following information was extracted from the profit and loss appropriation account for the year ended 31 October 2010.

		$	$
Profit for the year (net profit)			10 630
Interest charged on drawings	Samuel Mavuso	93	
	Martha Mavuso	147	240
			10 870
Interest allowed on capital	Samuel Mavuso	2 400	
	Martha Mavuso	1 600	4 000
Profit available for distribution			6 870

On 31 October 2010 the following information was available.

	$
Non-current (fixed) assets at cost	105 950
Provision for depreciation of non-current (fixed) assets	9 350
Current assets	23 562
Current liabilities	18 400

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REQUIRED

(b) Prepare the balance sheet of Samuel and Martha Mavuso at 31 October 2010. The capital and current account of each partner should be shown.

The calculation of the current account balances may either be shown within the balance sheet or as separate ledger accounts.

Use the space below for your workings.

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Samuel and Martha Mavuso
Balance Sheet at 31 October 2010

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[10]

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(c) Using the above information, calculate the current ratio of Samuel and Martha Mavuso. The calculation should be correct to **two** decimal places.

Show your workings.

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..... [2]

(d) Explain **two** ways in which their working capital could be improved.

(i) .....

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(ii) .....

..... [2]

(e) Explain why the quick ratio is a more reliable indicator of liquidity than the current ratio.

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..... [2]

[Total: 18]

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6 Waseem Shah is a trader. His financial year ends on 31 July.

The totals of Waseem Shah's trial balance on 31 July 2010 failed to agree.
The debit side totalled $398 240 and the credit side totalled $397 000.
He placed the difference on the trial balance in a suspense account and prepared draft financial statements (final accounts).

The draft financial statements (final accounts) included the following:

	$
Revenue (sales)	247 600
Cost of sales	163 100
Expenses	51 500

REQUIRED

(a) Calculate the percentage of gross profit to sales. The calculation should be correct to **two** decimal places.

Show your workings.

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..... [2]

(b) Suggest **two** reasons why the percentage of gross profit to sales is greater than it was at the end of the previous financial year.

(i) .....

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(ii) .....

..... [4]

After the preparation of the draft financial statements (final accounts) the following errors were discovered.

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1 Rent paid, $650, was correctly recorded in the cash book but had been entered in the rent account as $560.

2 $860 paid by cheque to M Ali had been debited to the account of J Ali.

3 Repairs to machinery, $1150, had been entered in the machinery account.

4 The bank overdraft, $1520, had been omitted from the trial balance.

REQUIRED

(c) Prepare the suspense account in Waseem Shah's ledger to show the required entries. Start with the balance arising from the difference on the trial balance.

Where a traditional "T" account is used it should be balanced and the balance brought down. If there is no balance the account should be totalled.

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

Waseem Shah
Suspense account

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..... [5]

(d) Select **one** of the errors 1– 4 above which has **not** been corrected by an entry in the suspense account. Explain why an entry in the suspense account was not necessary.

Error .....

.....

Explanation .....

..... [3]

(e) Prepare a statement to show the effect of correcting errors 1– 4 on the original profit for the year (net profit) and calculate the corrected profit for the year.

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If the error does not affect the profit for the year (net profit) write “No effect”.

The first correction has been completed as an example.

Waseem Shah
Statement of corrected profit for the year ended 31 July 2010

		Increase in profit	Decrease in profit	$
		$	$	
Profit for the year (net profit) before corrections				33 000
Error	1		*90*	
	2			
	3			
	4			
Corrected profit for the year				

[7]

[Total: 21]

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