UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

4206949933

ACCOUNTING **0452/23**

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.

For Examiner's Use	
1	
2	
3	
4	
5	
Total	

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

© UCLES 2010

For Examiner's Use

1 The following is the profit and loss appropriation account of Silston Ltd for the year ended 31 October 2010.

	$	$
Profit for the year (Net profit)		18 200
Less Transfer to general reserve	3 000	
Preference share dividend proposed	1 600	
Ordinary share dividend paid	1 200	
Ordinary share dividend proposed	3 600	9 400
Profit retained in the year		8 800
Balance brought forward from previous year		2 200
Balance carried forward to next year		11 000

The following information is also available at 31 October 2010.

	$
Issued share capital – 4% Preference shares of $1 each	40 000
Ordinary shares of $1 each	80 000
3% Debentures of $100 each	20 000
Inventory (stock)	13 350
Trade payables (creditors)	6 500
Trade receivables (debtors)	11 200
Provision for doubtful debts	224
Cash	210
Bank overdraft	2 736
Non-current (fixed) assets at cost	174 000
Provision for depreciation of non-current (fixed) assets	26 100
General reserve at 1 November 2009	4 000

REQUIRED

(a) Prepare the balance sheet of Silston Ltd at 31 October 2010.

© UCLES 2010

Silston Ltd
Balance Sheet at 31 October 2010

For Examiner's Use

[13]

(b) State **two** differences between ordinary shares and preference shares.

For Examiner's Use

(i) .....

.....

(ii) .....

..... [4]

(c) State **two** features of debentures.

(i) .....

.....

(ii) .....

..... [4]

[Total: 21]

© UCLES 2010

For Examiner's Use

2 Lynda Chomba is a trader. Her financial year ends on 30 September. Lynda Chomba has only a limited knowledge of accounting and employs a bookkeeper to maintain her accounting records.

The following account appeared in Lynda Chomba's ledger.

Lynda Chomba
Capital account

2010		$	2009	$
Sept 30	Purchases	4 220	Oct 1 Balance b/d	25 400
	Loss for the year (Net loss)	1 970	2010 Jan 2 Bank	5 000
	Balance c/d	24 210		
		30 400		30 400
			2010 Oct 1 Balance b/d	24 210

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

Lynda Chomba
Capital account

		Debit	Credit	Balance
2009		$	$	$
Oct 1	Balance		25 400	25 400 Cr
2010				
Jan 2	Bank		5 000	30 400 Cr
Sept 30	Purchases	4 220		26 180 Cr
	Loss for the year (net loss)	1 970		24 210 Cr

REQUIRED

(a) Explain the following entries in the above account.

State where the double entry for **each** transaction would have been made.

Bank - 2 January 2010

Explanation .....

.....

.....

Double entry ..... [3]

Purchases - 30 September 2010

Explanation .....

.....

.....

Double entry ..... [3]

Loss for the year (net loss) - 30 September 2010

Explanation .....

.....

.....

Double entry ..... [3]

(b) Explain the significance of the $24 210 shown at the end of the account.

.....

.....

..... [2]

(c) **(i)** Explain the business entity principle.

.....

.....

..... [2]

(ii) Give **one** example of how the bookkeeper applied this principle when he prepared Lynda Chomba's capital account.

.....

..... [1]

For Examiner's Use

© UCLES 2010

For Examiner's Use

(d) When a cheque was paid for repairs to equipment the bookkeeper credited the bank and debited the repairs account.

Name the accounting principle the bookkeeper has applied.

..... [1]

(e) The bookkeeper did not make any entries in the accounting records to show the value to the business of the highly skilled workforce.

Name the accounting principle the bookkeeper has applied.

..... [1]

The bookkeeper has suggested to Lynda Chomba that the ledger should be divided into three sections – the sales ledger, the purchases ledger and the general ledger.

He also suggested that control accounts should be maintained for the sales ledger and the purchases ledger.

REQUIRED

(f) State **two** advantages of dividing the ledger into three sections.

(i) .....

.....

(ii) .....

..... [2]

(g) State where the bookkeeper would obtain the relevant figure for **each** of the following items which would appear in the purchases ledger control account.

(i) Purchases returns

..... [1]

(ii) Interest charged by creditors on overdue accounts

..... [1]

(iii) Discount received from creditors.

..... [1]

Lynda Chomba's creditors allow her a period of 60 days in which to pay her account.

For Examiner's Use

On 30 September 2010 Lynda Chomba owed her creditors $9260. Her purchases for the year ended 30 September 2010 were

	$
cash purchases	3 500
credit purchases	48 500

REQUIRED

(h) (i) Calculate the payment period for trade payables (creditors).

Your answer should be rounded up to the next whole day.

Show your workings.

.....

.....

.....

..... [3]

(ii) Explain how Lynda Chomba's payment period for trade payables (creditors) may be affected by the collection period for trade receivables (debtors).

.....

.....

..... [2]

[Total: 26]

For Examiner's Use

3 The Mokolodi Athletics Club was formed on 1 August 2009.

In addition to providing sports facilities for members, the Club also has a shop selling sports clothing. All the shop sales are made on a cash basis.

The treasurer provided the following summary of the cash book for the year ended 31 July 2010.

Receipts	$	Payments	$
Subscriptions	7950	Sports equipment	6100
Shop sales	7500	Purchases of shop supplies	2950
Open day ticket sales	840	Open day expenses	690
Interest-free loan from Sport for All	6000	Rent	5200
		Insurance	1700
		General expenses	1990
		Repairs and maintenance	1070
		Wages – Groundsman	2500
		– Shop assistant	1470

Additional information:

1 The Club has 170 members. The annual subscription is $50.

On 31 July 2010
15 members still owed their subscription for the current year.
4 members had paid their subscription for the year ending 31 July 2011.

2 At 31 July 2010

	$
Creditors for shop supplies were owed	550
Shop inventory (stock) was valued at	650
Shop assistant's wages owing amounted to	90
General expenses prepaid amounted to	140
Sports equipment was valued at	5400

3 It was decided that 20% of the rent should be charged to the shop.

REQUIRED

For Examiner's Use

(a) Prepare the shop income statement (trading account) of the Mokolodi Athletics Club for the year ended 31 July 2010.

Mokolodi Athletics Club
Shop Income Statement (Trading Account) for the year ended 31 July 2010

.....

.....

.....

.....

.....

.....

.....

.....

..... [8]

(b) Prepare the income and expenditure account of the Mokolodi Athletics Club for the year ended 31 July 2010.

For Examiner's Use

Mokolodi Athletics Club
Income and Expenditure Account for the year ended 31 July 2010

[14]

For Examiner's Use

(c) A member of the Club is worried because the surplus or deficit in the income and expenditure account does not agree with the bank balance on 31 July 2010.

Explain **one** reason why the surplus or deficit does not equal the bank balance.

.....

.....

.....

..... [2]

[Total: 24]

For Examiner's Use

4 Ameena Saber started a business on 1 September 2008. On that date she purchased equipment, $12 200, on credit from Bashir Supplies. She purchased additional equipment, $9300, on 1 May 2010 and paid by cheque.

Ameena Saber decided to depreciate equipment at 15% per annum using the straight line (equal instalment) basis. The depreciation was to be calculated from the date of purchase. No depreciation was to be charged in the year of disposal.

REQUIRED

(a) Define depreciation.

.....

.....

..... [1]

(b) State **two** causes of depreciation.

(i) .....

(ii) ..... [2]

(c) **(i)** Name **one** accounting principle which is applied when providing for depreciation of non-current (fixed) assets.

..... [1]

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

.....

.....

.....

..... [2]

(d) Write up the equipment account and the provision for depreciation of equipment account in Ameena Saber's ledger for **each** of the years ended 31 August 2009 and 31 August 2010.

Where traditional "T" accounts are used they should be balanced at the end of each year, and 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.

Ameena Saber
Equipment account

For Examiner's Use

[3]

Provision for depreciation of equipment account

[5]

On 30 September 2010 Ameena Saber sold one quarter of the equipment she had purchased on 1 September 2008 as it was no longer suitable. She received $900 in cash.

For Examiner's Use

Ameena Saber opened an account in her ledger to record the disposal of equipment.

REQUIRED

(e) Prepare entries in Ameena Saber's journal to record the disposal of the equipment on 30 September 2010.

Narratives **are** required.

Ameena Saber
Journal

	Debit $	Credit $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[9]

[Total: 23]

For Examiner's Use

5 Mark Utaka prepared the following trial balance **after** the calculation of the gross profit for the year ended 31 October 2010.

	$	$
Gross profit		85 000
Expenses	49 000	
Inventory (stock) 31 October 2010	41 000	
Non-current (fixed) assets	300 000	
Trade receivables (debtors)	36 000	
Trade payables (creditors)		38 000
Bank	27 000	
Capital 1 November 2009		330 000
	453 000	453 000

Additional information:

1 The cost of sales was $340 000.

2 The non-current (fixed) assets were purchased on 30 September 2010. No depreciation is charged in the year of purchase.

REQUIRED

(a) Calculate the following ratios. The calculations should be correct to **two** decimal places.

Show your workings.

(i) Percentage of gross profit to sales

.....

.....

.....

.....

..... [3]

(ii) Percentage of profit for the year (net profit) to sales

.....

.....

.....

.....

..... [3]

For Examiner's Use

(iii) Return on capital employed (ROCE), using the capital on 1 November 2009

.....

.....

.....

.....

..... [2]

(b) State **three** reasons why **each** of the above ratios is important to Mark Utaka.

(i) Percentage of gross profit to sales

1 .....

.....

2 .....

.....

3 .....

..... [3]

(ii) Percentage of profit for the year (net profit) to sales

1 .....

.....

2 .....

.....

3 .....

..... [3]

For Examiner's Use

(iii) Return on capital employed (ROCE)

1 .....

.....

2 .....

.....

3 .....

..... [3]

Mark Utaka provided the following information about his inventory (stock).

	Cost	Net realisable value
	$	$
Inventory (stock) 1 November 2009	39 000	42 000
Inventory (stock) 31 October 2010	43 000	41 000

REQUIRED

(c) State the difference between cost and net realisable value.

.....

.....

.....

..... [2]

(d) Explain why the inventory (stock) at 31 October 2010 was included in the financial statements (final accounts) at net realisable value rather than at cost.

.....

.....

..... [2]

© UCLES 2010

After the preparation of the income statement (trading account) for the year ended 31 October 2010 it was discovered that the inventory (stock) on 1 November 2009 had been included at net realisable value.

For Examiner's Use

REQUIRED

(e) Complete the following table to indicate the effect of this error on the cost of sales, the gross profit and the net profit for the year ended 31 October 2010.

Place a tick (✓) under the correct heading to indicate whether the items would be overstated or understated.

	Overstated	Understated
Cost of sales		
Gross profit		
Profit for the year (Net profit)		

[3]

(f) Explain **two** ways in which Mark Utaka could improve his rate of inventory (stock) turnover.

(i) .....

.....

(ii) .....

..... [2]

[Total: 26]

© UCLES 2010

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.

© UCLES 2010