



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

CANDIDATE
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ACCOUNTING

0452/22

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 | |
| 6 | |
| Total | |

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



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

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Use

| | 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 | |
| | <u>326 710</u> | <u>326 710</u> |

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).

- 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.

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

| | |
|--------------|---------|
| | \$ |
| Cash sales | 95 000 |
| Credit sales | 275 000 |

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

[Total: 22]

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

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..... [3]

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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]

(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.

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Use*

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

(i) Non-financial aspects

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

(ii) Historical cost

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

[Total: 20]

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 \$)

.....

.....

..... [2]

(ii) Interest payable on debentures (in \$)

.....

.....

..... [2]

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

.....

 [2]

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 Use

(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 | <i>No entry</i> | ✓ | <i>No entry</i> |
| Debenture interest payable | | | |
| Ordinary share dividend payable | | | |

[4]

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

Show your workings.

.....

 [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.

Show your workings.

.....
.....
.....
..... [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.

.....
.....
..... [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.

.....

 [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 | <u>147</u> | <u>240</u> |
| | | | 10 870 |
| Interest allowed on capital | Samuel Mavuso | 2 400 | |
| | Martha Mavuso | <u>1 600</u> | <u>4 000</u> |
| 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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Use*

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.

(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.

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

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

(i)
.....
(ii)
..... [2]

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

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

[Total: 18]

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.

.....

.....

.....

..... [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)

.....

(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

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

[7]

[Total: 21]

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