



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

CANDIDATE  
NAME

CENTRE  
NUMBER

--	--	--	--	--

CANDIDATE  
NUMBER

--	--	--	--

\* 0 5 3 7 6 3 6 5 7 9 \*

**ACCOUNTING**

Paper 3

**0452/03**

**May/June 2008**

**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 the 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	
<b>1</b>	
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>Total</b>	

This document consists of **18** printed pages and **2** blank pages.



1 Jane Sharma is a trader. Her financial year ends on 30 April.

The bank columns of her cash book for the month of April 2008 were as follows:

Cash Book (bank columns only)

2008		\$	2008		\$
April 1	Balance b/d	2210	April 9	Mashatu Stores	436
12	Lobatse Traders	314	16	General expenses	125
30	Cash	500	28	Ghanzi & Co	390
			30	Balance c/d	<u>2073</u>
		<u>3024</u>			<u>3024</u>
May 1	Balance b/d	2073			

Jane Sharma's business bank statement for April 2008 was as follows:

Bank Statement at 30 April 2008

Date	Details	Debit	Credit	Balance
2008		\$	\$	\$
April 1	Balance		2120	2120 Cr
10	AB Insurance Co	360		1760
11	Dividend (credit transfer)		62	1822
17	Mashatu Stores	436		1386
18	Lobatse Traders		314	1700
21	General expenses	125		1575
29	Lobatse Traders (dishonoured)	314		1261
30	Bank charges	11		1250

The following errors were discovered:

- 1 The cash book balance brought forward on 1 April should have been \$2120.
- 2 The bank had credited dividend received, \$62, to Jane Sharma's business account instead of her personal account.

**REQUIRED**

(a) State **two** reasons, other than finding errors, why Jane Sharma should reconcile her cash book with the statement received from the bank.

(i) .....

.....

(ii) .....

..... [2]

- (b) Update Jane Sharma's cash book. Bring down the updated cash book balance on 1 May 2008.

For  
Examiner's  
Use

Cash Book (bank columns only)

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [6]

- (c) Prepare a bank reconciliation statement for Jane Sharma at 30 April 2008.

Bank Reconciliation Statement at 30 April 2008

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [6]

(d) State the bank balance that should be shown in the balance sheet of Jane Sharma at 30 April 2008. State whether it is an asset or a liability.

For  
Examiner's  
Use

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

In addition to the **corrected bank balance** Jane Sharma had the following current assets and current liabilities on 30 April 2008.

	\$
Stock	6322
Debtors	5670
Creditors	7250
Cash	100

**REQUIRED**

(e) Calculate, to **two** decimal places, the current ratio. Show your workings.

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

(f) Explain why Jane Sharma would find the quick ratio more reliable than the current ratio as an indicator of liquidity.

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

**[Total: 20]**

- 2 Miriam Rajah is a trader. Her financial year ends on 31 January. Miriam employs a bookkeeper to maintain her financial records.

The following account appears in Miriam Rajah's ledger:

Provision for doubtful debts account					
2008		\$			\$
Jan 31	Profit & loss	50	Feb 1	Balance b/d	650
	Balance c/d	<u>600</u>			
		<u>650</u>			<u>650</u>
			2008		
			Feb 1	Balance b/d	600

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

Provision for doubtful debts account				
		Debit	Credit	Balance
2007		\$	\$	\$
Feb 1	Balance		650	650 Cr
2008				
Jan 31	Profit and loss	50		600 Cr

**REQUIRED**

- (a) State **one** reason why Miriam Rajah should maintain a provision for doubtful debts.

.....  
 ..... [1]

- (b) Explain **each** entry in the provision for doubtful debts account as it appears in Miriam Rajah's ledger.

2007 February 1 Balance  
 .....  
 ..... [2]

2008 January 31 Profit and loss  
 .....  
 ..... [2]

Explain the significance of the \$600 shown at the end of the account.

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

Miriam Rajah is concerned that she often has a bank overdraft. She believes that this may be connected to the rate at which she pays her creditors and the rate at which she is paid by her debtors.

All Miriam Rajah's sales and purchases are made on credit terms. She allows her debtors 30 days credit and is allowed 21 days credit by her creditors.

**REQUIRED**

(c) Suggest **one** way in which the collection period for debtors may affect the payment period for creditors.

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

The following information is available at 31 January 2008:

	\$
For the year ended 31 January 2008	
credit sales	268 500
credit purchases	242 500
At 31 January 2008	
debtors	30 000
creditors	20 200

**REQUIRED**

(d) Calculate Miriam Rajah's collection period for debtors. Show your workings. Round up your answer to the nearest whole day.

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

- (e) Calculate Miriam Rajah’s payment period for creditors. Show your workings. Round up your answer to the nearest whole day.

.....

.....

.....

..... [2]

- (f) State **two** possible advantages to Miriam Rajah of paying her creditors before the due date.

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

Miriam Rajah is also the treasurer of a local sports club.

The financial year of the sports club ends on 31 March. Miriam Rajah is able to provide the following information relating to the members’ subscriptions.

	\$
At 1 April 2007	
Subscriptions owing by members	320
For the year ended 31 March 2008	
Subscriptions received from members in cash	8720
At 31 March 2008	
Subscriptions prepaid by members	400

**REQUIRED**

- (g) Prepare the subscriptions account as it would appear in the ledger of the sports club for the year ended 31 March 2008.

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 2008. Where a three column running balance account is used the balance column should be updated after each entry.

For  
Examiner's  
Use

Subscriptions account

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [7]

*For  
Examiner's  
Use*

**[Total: 22]**



- 3 Abdul and Amina Mahmoud are in partnership. Their financial year ends on 30 April. The trial balance prepared on 30 April 2008 failed to agree. The debit side totalled \$95 857 and the credit side totalled \$95 457. The difference was entered in a suspense account.

*For  
Examiner's  
Use*

The following errors were later discovered:

- 1 Abdul had spent \$20 of his personal funds to purchase business stationery. This had not been recorded in the books.
- 2 Goods withdrawn by Abdul for personal use, costing \$300, had been debited to his drawings account but no other entry had been made.
- 3 \$50 recovered from a bad debt (written off in 2006) had been correctly entered in the cash book and had been debited to the bad debts account.
- 4 The partners decided that the debit balance of \$2200 on Amina's current account should be transferred to her capital account. This had not been recorded.

**REQUIRED**

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

Narratives are **not** required.

## Journal

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

[9]

- (b) Prepare the suspense account in Abdul and Amina Mahmoud'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 or totalled as necessary. Where a three column running balance account is used the balance column should be updated after each entry.

Suspense account

.....

.....

.....

.....

.....

.....

..... [4]

For  
Examiner's  
Use

Before the errors were discovered Abdul and Amina Mahmoud calculated that they had made a net profit of \$12 900 for the year ended 30 April 2008.

**REQUIRED**

- (c) Prepare a statement to show the effect of correcting errors 1-4 on the original net profit and calculate the corrected net profit.

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

The first correction has been completed as an example.

Abdul and Amina Mahmoud  
Statement of corrected net profit for the year ended 30 April 2008

		\$
Net profit before corrections		12 900
	Effect on net profit	
	Increase                  Decrease	
	\$                                  \$	
Error 1		20
2		
3		
4	_____	_____
	_____	_____
	Corrected net profit	_____

[4]

Abdul and Amina Mahmoud calculated the percentage of net profit to sales and found that it was lower than that of the previous financial year.

*For  
Examiner's  
Use*

**REQUIRED**

(d) State **two** ways in which the percentage of net profit to sales could be improved.

(i) .....

.....

(ii) .....

..... [2]

**[Total: 19]**

**BLANK PAGE**

4 Gideon Yeboah is a manufacturer. He provided the following information.

	At 1 April 2007	At 31 March 2008
	\$	\$
Stock - raw materials	21 230	19 410
work in progress	11 680	12 130
finished goods	46 900	53 170

For the year ended 31 March 2008

	\$
Sales of finished goods	825 000
Purchases of raw materials	255 620
Purchases of finished goods	13 200
Direct factory wages	194 060
Factory general expenses	133 910

The following additional information is available on 31 March 2008:

- 1 Direct factory wages accrued amounted to \$4800.
- 2 The factory general expenses include insurance on the factory which is prepaid by \$210.
- 3 The factory machinery was valued at \$92 000.  
On 1 April 2007 the factory machinery was valued at \$103 000. Additional machinery costing \$21 000 was purchased during the year. There were no sales of machinery during the year.

**REQUIRED**

(a) (i) State the basis on which Gideon Yeboah should value his stocks.

.....  
..... [1]

(ii) Name **one** accounting principle Gideon Yeboah is applying by valuing his stocks on this basis.

..... [1]







**BLANK PAGE**

5 Tahir Ali supplies building materials. His financial year ends on 31 December.

On 1 January 2006 he decided to provide a delivery service for his customers. On that date he purchased **three** motor vehicles, costing \$20 000 each, on credit from Ansari Road Motors.

Tahir Ali decided that depreciation should be calculated on motor vehicles owned at 31 December each year at the rate of 20 % per annum, using the reducing (diminishing) balance 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 30 June 2007 Tahir Ali decided that only two motor vehicles were required and he sold the other motor vehicle on credit to Apollo Traders for \$17 000.

**REQUIRED**

(a) Explain how Tahir Ali is applying the matching principle when he depreciates his motor vehicles.

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

(b) Write up the following accounts in Tahir Ali's ledger for **each** of the years ended 31 December 2006 and 31 December 2007.

- (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 updated after each entry.

(i)

Motor vehicles account

For  
Examiner's  
Use

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(ii)

Provision for depreciation of motor vehicles account

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

(iii)

Disposal of motor vehicles account

*For  
Examiner's  
Use*

.....  
.....  
.....  
.....  
.....  
..... [18]

**[Total: 20]**

---

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.