UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ACCOUNTING

Paper 3

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

1
2
3
4
5
Total

This document consists of 20 printed pages and 4 blank pages.
Tony and Alice Mundondo started a business on 1 March 2007 supplying and repairing computers. On that date they purchased a motor vehicle, $9500, on credit from Valley Motors. They purchased a further motor vehicle, $10 800, on 1 July 2008 and paid by cheque.

They decided to depreciate the motor vehicles at 20 % per annum using the straight line (equal instalment) method. The depreciation was to be calculated from the date of purchase. No depreciation was to be charged in the year of disposal of a motor vehicle.

REQUIRED

(a) Write up the following accounts in the ledger of Tony and Alice Mundondo for each of the years ended 29 February 2008 and 28 February 2009:

(i) Motor vehicles account

(ii) Provision for depreciation of motor vehicles account

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.

(i) Motor vehicles account

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.................................................................
.................................................................
.................................................................
(ii) Provision for depreciation of motor vehicles account

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..............................................................................................................................................
.............................................................................................................................................. [9]

(b) Prepare the relevant extract from the fixed assets section of Tony and Alice Mundondo’s balance sheet at 28 February 2009.

Tony and Alice Mundondo
Extract from Balance Sheet at 28 February 2009

..............................................................................................................................................
..............................................................................................................................................
..............................................................................................................................................
.............................................................................................................................................. [3]
On 31 March 2009 Tony and Alice Mundondo decided that the motor vehicle purchased in 2007 was too small. On that date they purchased a larger motor vehicle from Valley Motors who agreed to accept the original motor vehicle in part exchange.

Tony and Alice Mundondo opened an account in the ledger to record the disposal of the motor vehicle.

REQUIRED

(c) Complete the following table to indicate the ledger accounts to be debited and credited to record the disposal of the motor vehicle on 31 March 2009.

<table>
<thead>
<tr>
<th></th>
<th>account to be debited</th>
<th>account to be credited</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>eliminating original cost of motor vehicle from ledger</td>
<td></td>
</tr>
<tr>
<td>(ii)</td>
<td>eliminating accumulated depreciation from ledger</td>
<td></td>
</tr>
<tr>
<td>(iii)</td>
<td>recording part exchange allowance made by Valley Motors</td>
<td></td>
</tr>
</tbody>
</table>

[6]

Tony and Alice Mundondo have heard of the revaluation method of depreciation but do not understand how it is applied.

REQUIRED

(d) (i) Explain the revaluation method of depreciation.

(ii) State one type of fixed asset which is suitable for depreciation using the revaluation method.

[Total: 21]
Question 2 is on the next page.
Morag MacDonald provides a range of business services for small retail organisations. Her financial year ends on 31 December.

She provided the following information for the year ended 31 December 2008.

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees from clients</td>
<td>75,050</td>
</tr>
<tr>
<td>Property tax paid</td>
<td>1,800</td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>2,930</td>
</tr>
<tr>
<td>Rent received from tenant</td>
<td>2,750</td>
</tr>
<tr>
<td>Wages</td>
<td>45,000</td>
</tr>
<tr>
<td>Stationery and office supplies</td>
<td>1,790</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,680</td>
</tr>
</tbody>
</table>

Additional information

1. On 31 December 2008:

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fees due from clients (debtors)</td>
<td>9,000</td>
</tr>
<tr>
<td>Wages owing</td>
<td>2,000</td>
</tr>
<tr>
<td>Insurance prepaid</td>
<td>240</td>
</tr>
<tr>
<td>Stock of stationery and office supplies</td>
<td>35</td>
</tr>
<tr>
<td>Rent prepaid by tenant</td>
<td>150</td>
</tr>
</tbody>
</table>

2. Office equipment is depreciated using the reducing (diminishing) balance method at 50% per annum.

On 1 January 2008 the office equipment account had a balance of $10,800 and the provision for depreciation of office equipment account had a balance of $8,100.

3. A provision for doubtful debts is maintained at 2 ½% of the fees due from clients (debtors) at the end of each financial year.

On 1 January 2008 the provision for doubtful debts amounted to $250.
REQUIRED

(a) Prepare the profit and loss account of Morag MacDonald for the year ended 31 December 2008.

Morag MacDonald
Profit and Loss Account for the year ended 31 December 2008

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[9]
On 31 December 2008 Morag MacDonald had money in the bank but her working capital was lower than it was at the start of the year.

REQUIRED

(b) Explain why it is important for Morag MacDonald to have an adequate amount of working capital.

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

(c) State two ways in which Morag MacDonald could increase her working capital.

(i) .................................................................................................................................................. [1]

(ii) ................................................................................................................................................ [1]

(d) State and explain the effect of each of the following transactions on Morag MacDonald’s working capital.

The first one has been completed as an example.

(i) Office equipment, $10 000, was purchased by cheque.

Effect  working capital decreases by $10 000.

Explanation The current assets decrease by $10 000 as the bank balance decreases. There is no change in the current liabilities.

(ii) An increase in the provision for doubtful debts of $50.

Effect ..............................................................................................................................................

Explanation ..................................................................................................................................... [2]
(iii) Payment of $200 by a debtor in cash.

Effect

Explanation

(iv) Payment of $96 by cheque to a creditor in full settlement of $100 owing.

Effect

Explanation

[Total: 19]
Mohammed Hanif 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 every month.

He provided the following information for the month of April 2009.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1</td>
<td>Sales ledger balances</td>
<td>$4100 debit</td>
</tr>
<tr>
<td></td>
<td>Sales ledger balances</td>
<td>$72 credit</td>
</tr>
<tr>
<td>April 30</td>
<td>Totals for the month:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sales journal</td>
<td>$5300</td>
</tr>
<tr>
<td></td>
<td>Sales returns journal</td>
<td>$320</td>
</tr>
<tr>
<td></td>
<td>Cash sales</td>
<td>$3900</td>
</tr>
<tr>
<td></td>
<td>Cheques received from debtors</td>
<td>$3850</td>
</tr>
<tr>
<td></td>
<td>Cheque received from a debtor (included in the cheques received shown above)</td>
<td>$65</td>
</tr>
<tr>
<td></td>
<td>later dishonoured</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash received relating to a bad debt written off in September 2007</td>
<td>$250</td>
</tr>
<tr>
<td></td>
<td>Discount allowed</td>
<td>$150</td>
</tr>
<tr>
<td></td>
<td>Increase in provision for doubtful debts</td>
<td>$60</td>
</tr>
<tr>
<td></td>
<td>Transfer from a purchases ledger account to a sales ledger account</td>
<td>$240</td>
</tr>
</tbody>
</table>
REQUIRED

(a) Select the relevant figures and prepare Mohammed Hanif’s sales ledger control account for the month ended 30 April 2009. 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 May 2009. Where a three column running balance account is used the balance column should be up-dated after each entry.

Mohammed Hanif
Sales ledger control account

(b) State one reason why it is possible to have a credit balance brought down on a sales ledger control account.
(c) State where each of the following items will appear in a purchases ledger control account. If the item will not appear in a purchases ledger control account write “No entry”.

The first one has been completed as an example.

<table>
<thead>
<tr>
<th>Item</th>
<th>Entry in purchases ledger control account</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Purchases returns</td>
<td>debit</td>
</tr>
<tr>
<td>(ii) Cash purchases</td>
<td></td>
</tr>
<tr>
<td>(iii) Discount received</td>
<td></td>
</tr>
<tr>
<td>(iv) Interest charged by supplier on overdue account</td>
<td>[3]</td>
</tr>
</tbody>
</table>

Mohammed Hanif’s accountant advised him that it is necessary to make decisions in relation to accounting policies. He informed Mohammed Hanif that one of the four objectives he must consider is “relevance”.

REQUIRED

(d) Explain to Mohammed Hanif what is meant by the term “relevance”.

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........................................................................................................................................ [2]
Mohammed Hanif’s accountant informed him that the accounting statements prepared at the end of the financial year provide only a limited amount of information about the business.

REQUIRED

(e) State how each of the following may be regarded as a limitation of accounting statements.

The first one has been completed as an example.

(i) Historic cost

All transactions are recorded at the actual cost price.

It is difficult to compare transactions taking place at different times.

(ii) Money measurement

[2]

(iii) Time factor

[2]

[Total: 20]
The Lobatse Rugby Club had the following assets and liabilities on 1 April 2008.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment at book value</td>
<td>4400</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>3700</td>
</tr>
<tr>
<td>Subscriptions prepaid by members</td>
<td>100</td>
</tr>
<tr>
<td>Subscriptions owed by members</td>
<td>50</td>
</tr>
<tr>
<td>Accumulated fund</td>
<td>8050</td>
</tr>
</tbody>
</table>

The treasurer of the club prepared the following receipts and payments account for the year ended 31 March 2009.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 1 Balance b/d</td>
<td>3700</td>
<td>April 1 Balance b/d</td>
<td>130</td>
</tr>
<tr>
<td>Mar 31 Transfer to bank</td>
<td>2000</td>
<td>Mar 31 Transfer to bank</td>
<td>130</td>
</tr>
<tr>
<td>Mar 31 Subscriptions</td>
<td>2250</td>
<td>March 31 Subscriptions</td>
<td>2200</td>
</tr>
<tr>
<td>Interest received</td>
<td>100</td>
<td>Interest received</td>
<td>100</td>
</tr>
<tr>
<td>Entrance fees for</td>
<td>520</td>
<td>Entrance fees for</td>
<td>520</td>
</tr>
<tr>
<td>Sports day</td>
<td></td>
<td>Sports day</td>
<td>520</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sports day expenses</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General expenses</td>
<td>490</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rent</td>
<td>1530</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sports day expenses</td>
<td>370</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance c/d</td>
<td>130</td>
</tr>
</tbody>
</table>

The treasurer supplied the following additional information.

1. On 31 March 2009:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscriptions owing by members</td>
<td>200</td>
</tr>
<tr>
<td>Rent accrued</td>
<td>30</td>
</tr>
<tr>
<td>General expenses prepaid</td>
<td>20</td>
</tr>
</tbody>
</table>

2. The equipment is depreciated by 10% per annum on the value of equipment held at the end of each financial year.
REQUIRED

(a) Prepare the subscriptions account as it would appear in the ledger of the Lobatse Rugby Club for the year ended 31 March 2009.

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 2009. Where a three column running balance account is used the balance column should be up-dated after each entry.

Lobatse Rugby Club
Subscriptions account

[7]
(b) Prepare the income and expenditure account of the Lobatse Rugby Club for the year ended 31 March 2009.

Lobatse Rugby Club
Income and Expenditure Account for the year ended 31 March 2009

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
</tr>
</tbody>
</table>

[10]
(c) (i) Select **one** of the items appearing in the receipts and payments account which should **not** be included in the income and expenditure account and explain **why** it does not appear.

<table>
<thead>
<tr>
<th>Item</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(ii) Select **one** of the items appearing in the income and expenditure account which **does not** appear in the receipts and payments account and explain **why** it does not appear.

<table>
<thead>
<tr>
<th>Item</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Total: 21]
Kalpna Khan started a business on 1 April 2007. On that date she rented premises larger than she required so that she had space for future expansion. She employs ten staff to make exclusive hand-made sweets and chocolates, which are sold to department stores and personal customers.

She provided the following information:

<table>
<thead>
<tr>
<th>ratio</th>
<th>Year ended 31 March 2008</th>
<th>Year ended 31 March 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>percentage of gross profit to sales</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>percentage of net profit to sales</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

**REQUIRED**

(a) Suggest two reasons for the fall in the percentage of gross profit to sales.

(i) .............................................................................................................................................

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

(b) Explain one way in which the percentage of net profit to sales could be increased.

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

Kalpna Khan is interested in the effect of expenses on her profitability.

**REQUIRED**

(c) Using the information in the table above, calculate the percentage of expenses to sales for each year. Show your calculations.

(i) Year ended 31 March 2008

..................................................................................................................................................

..................................................................................................................................................

(ii) Year ended 31 March 2009

..................................................................................................................................................

.................................................................................................................................................. [2]
(d) Explain how the change in the percentage of expenses to sales has affected the efficiency of the business.

Kalpna Khan is allowed a period of 60 days in which to pay her creditors. She allows her debtors a period of 30 days in which to pay their accounts.

On 31 March 2009 Kalpna Khan owed $44,500 to her creditors and her debtors owed $38,500.

Kalpna Khan’s purchases and sales for the year ended 31 March 2009 were:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases – cash</td>
<td>4,000</td>
</tr>
<tr>
<td>credit</td>
<td>320,000</td>
</tr>
<tr>
<td>Sales – cash</td>
<td>50,000</td>
</tr>
<tr>
<td>credit</td>
<td>400,000</td>
</tr>
</tbody>
</table>

REQUIRED

(e) Complete the table below to show the ratios for the year ended 31 March 2009.

Calculations should be rounded up to the next whole day.

<table>
<thead>
<tr>
<th>ratio</th>
<th>Year ended 31 March 2008</th>
<th>Year ended 31 March 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>payment period for creditors</td>
<td>61 days</td>
<td>................days</td>
</tr>
<tr>
<td>collection period for debtors</td>
<td>29 days</td>
<td>................days</td>
</tr>
</tbody>
</table>

Use the space below for your workings.
(f) Using the figures in the table above, explain the effect of the change in the ratios on the liquidity of Kalpna Khan’s business.

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

(g) Explain two ways in which Kalpna Khan could improve the collection period for debtors.

(i) ..........................................................................................................................................
.............................................................................................................................................

(ii) ..........................................................................................................................................
............................................................................................................................................. [2]
Kalpna Khan wishes to compare her results with those of a similar business. She is aware that there are problems in making such a comparison.

REQUIRED

(h) Explain how each of the following affects inter-firm comparison. Use examples to illustrate your answers.

The first has been completed as an example.

(i) Different type of expenses

One business may own premises, another may rent premises. This affects the expenses and the profit and the profitability ratios – making comparison difficult.

(ii) Non-monetary factors

(iii) Accounting policies

[Total: 19]