UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

ACCOUNTING

Paper 2

October/November 2006

1 hour 30 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 rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

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

<table>
<thead>
<tr>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
</tr>
<tr>
<td>3</td>
</tr>
<tr>
<td>4</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

This document consists of 12 printed pages.

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1 (a) Ahmed makes a sale on credit to Bahir. What is the name of the document Ahmed gives to Bahir showing the amount of the sale? [1]

(b) Give two examples of a fixed asset.
(i) ...................................................................................................................... [2]
(ii) ..................................................................................................................[2]

(c) In which final account would motor expenses appear? [1]

(d) State what is meant by a trade creditor. [1]

(e) A payment from Peter is entered in Paul’s account in error. What type of error has been made? [1]

(f) State two methods of calculating depreciation.
(i) ...................................................................................................................... [2]
(ii) .................................................................................................................. [2]

(g) In which section of the Balance Sheet should a bank overdraft be shown? [1]
(h) Kay’s business had stock on 1 July 2005 valued at $6000 and on 30 June 2006 valued at $9000. Her cost of goods sold for the year was $45 000. What was her rate of stock turnover?

Show your workings.

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

........................................................................................................................................ [3]

(i) Insert the missing words in the following formula:

Gross profit percentage = \[ \frac{\underline{\text{}}}{{}\times 100} \]

\[\underline{\text{}}\]

[2]

[Total: 14]
Tanita has a retail shop and sells clothes. Some of her customers pay cash and some have credit accounts which they settle each month. Tanita had the following transactions in March 2006:

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 4</td>
<td>Sale on credit to Vanni</td>
<td>110</td>
</tr>
<tr>
<td></td>
<td>Cash sale</td>
<td>55</td>
</tr>
<tr>
<td>10</td>
<td>Sale on credit to Saska</td>
<td>200</td>
</tr>
<tr>
<td>15</td>
<td>Returns from Vanni</td>
<td>30</td>
</tr>
<tr>
<td>31</td>
<td>Cash received from Saska</td>
<td>190</td>
</tr>
<tr>
<td>31</td>
<td>Discount allowed to Saska</td>
<td>10</td>
</tr>
</tbody>
</table>

REQUIRED

(a) Show the entries for these transactions in the following accounts in Tanita’s ledger. Enter the transfers to the Trading and Profit and Loss Account for the month.

Sales account

Sales Returns account

Vanni account
(b) From your answer to (a), complete items (i), (ii), (iii) and (iv) in the following extract from Tanita’s Trading and Profit and Loss Account for the month of March 2006.

Trading and Profit and Loss Account (extract) $

Sales (i) 

Less: sales returns (ii) 

Net sales (iii) 

Expenses 

Discount allowed (iv) 

[Total: 19]
Morgan is in business as a printer. He has prepared the following Trial Balance (after calculating net profit) from his accounting records for the year ended 31 August 2006.

Morgan
Trial Balance at 31 August 2006

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery at cost</td>
<td>7 000</td>
</tr>
<tr>
<td>Office equipment at cost</td>
<td>2 500</td>
</tr>
<tr>
<td>Provision for depreciation</td>
<td></td>
</tr>
<tr>
<td>Machinery</td>
<td>1 400</td>
</tr>
<tr>
<td>Office equipment</td>
<td>1 000</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>300</td>
</tr>
<tr>
<td>Bank</td>
<td>2 200</td>
</tr>
<tr>
<td>Cash</td>
<td>200</td>
</tr>
<tr>
<td>Creditors</td>
<td>1 800</td>
</tr>
<tr>
<td>Debtors</td>
<td>3 500</td>
</tr>
<tr>
<td>Loan from Nicola repayable 2011</td>
<td>5 000</td>
</tr>
<tr>
<td>Prepayments</td>
<td>600</td>
</tr>
<tr>
<td>Stock at 31 August 2006</td>
<td>3 900</td>
</tr>
<tr>
<td>Capital</td>
<td>9 000</td>
</tr>
<tr>
<td>Drawings</td>
<td>21 000</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>18 000</td>
</tr>
<tr>
<td></td>
<td>38 700</td>
</tr>
</tbody>
</table>

REQUIRED

(a) State which accounting principle has been applied in the treatment of each of the following items:

(i) Profit for the year;

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

(ii) Stock.

.................................................................  [4]
(b) Prepare Morgan’s Balance Sheet at 31 August 2006.

Morgan
Balance Sheet at 31 August 2006
(c) Morgan’s business has a bank overdraft at 31 August 2006. Suggest one way in which he could reduce or eliminate the overdraft. 

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

(d) Nicola has given Morgan an additional long term loan of $2000 paid into the bank on 1 September 2006.

In the table below, place a tick (✓) under the correct heading to indicate the effect of the additional loan on the following items in Morgan’s Balance Sheet:

<table>
<thead>
<tr>
<th>Effect of additional loan</th>
<th>Increase</th>
<th>Decrease</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Bank overdraft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(ii) Loan account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Working capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iv) Profit for the year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(v) Capital</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[5] [Total: 24]
4 (a) Explain and give an example of the accounting principle of matching.

Kalim has a retail business and pays insurance on his premises. He pays an annual premium to the insurance company for the year ended 31 December but prepares his accounts to 30 September.

At 1 October 2005 he had prepaid insurance of $300. He paid the next year’s annual premium of $1320 on 1 January 2006.

REQUIRED

(b) Show the entries in Kalim’s insurance account for the year ended 30 September 2006 including the transfer to the Profit and Loss Account for the year and the balance carried down at 30 September 2006.

Kalim
Insurance account

[Total: 11]
5 Smith and Travers are in partnership sharing profits and losses in accordance with their partnership agreement which states the following:

1 Interest on capital is allowed at 5% per annum.
2 Salary to be paid to Smith of $15 000 per annum.
3 Interest to be charged on each partner’s total drawings for the year at 4% per annum.
4 Travers and Smith share the balance of profits in the ratio 3:2.

The balances on the partners’ capital accounts at 1 October 2005 were:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith</td>
<td>$30 000</td>
</tr>
<tr>
<td>Travers</td>
<td>$40 000</td>
</tr>
</tbody>
</table>

The partners’ drawings for the year ended 30 September 2006 were:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith</td>
<td>$35 000</td>
</tr>
<tr>
<td>Travers</td>
<td>$15 000</td>
</tr>
</tbody>
</table>

The net profit of the partnership for the year ended 30 September 2006 was $89 000.

**REQUIRED**

(a) Prepare the Profit and Loss Appropriation Account for the partnership for the year ended 30 September 2006.

You may use the space below for workings.

\[
\begin{array}{cccccc}
\text{Particulars} & \text{Amount} \\
\hline
\text{Net Profit} & $89 000 \\
\text{Less: Salary to Smith} & ($15 000) \\
\text{Interest on capital} & ($30 000) \\
\text{Interest on drawings} & ($14 000) \\
\text{Balance to be shared} & $36 000 \\
\text{Share of Smith} & ($21 600) \\
\text{Share of Travers} & ($14 400) \\
\end{array}
\]

\[
\begin{array}{cccccc}
\text{Particulars} & \text{Amount} \\
\hline
\text{Opening Balance} & $30 000 \\
\text{Drawings} & ($35 000) \\
\text{Interest on drawings} & ($14 000) \\
\text{Closing Balance} & $1 600 \\
\end{array}
\]

\[
\begin{array}{cccccc}
\text{Particulars} & \text{Amount} \\
\hline
\text{Opening Balance} & $40 000 \\
\text{Drawings} & ($15 000) \\
\text{Interest on drawings} & ($16 000) \\
\text{Closing Balance} & ($7 000) \\
\end{array}
\]
Smith and Travers
Profit and Loss Appropriation Account for the year ended 30 September 2006

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td></td>
</tr>
<tr>
<td>Less: Cost of sales</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
</tr>
<tr>
<td>Less: Operating Expenses</td>
<td></td>
</tr>
<tr>
<td>Profit before Tax</td>
<td></td>
</tr>
<tr>
<td>Income Taxes</td>
<td></td>
</tr>
<tr>
<td>Net Profit</td>
<td></td>
</tr>
</tbody>
</table>

[14]
Smith’s current account in the partnership books showed a balance of $2300 Cr. at 1 October 2005.

REQUIRED

(b) Using the information above and your answer to part (a), calculate the balance on Smith’s current account at 30 September 2006.

Show your workings.

[Total: 22]