



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
International General Certificate of Secondary Education

CANDIDATE  
NAME

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NUMBER

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**ACCOUNTING**

**0452/03**

Paper 3

**May/June 2009**

**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 **20** printed pages and **4** blank pages.



- 1 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

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..... [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.

*For  
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Use*

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.

		account to be debited	account to be credited
(i)	eliminating original cost of motor vehicle from ledger		
(ii)	eliminating accumulated depreciation from ledger		
(iii)	recording part exchange allowance made by Valley Motors		

[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.

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

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

..... [1]

**[Total: 21]**

**Question 2 is on the next page.**

- 2 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.

	\$
Fees from clients	75 050
Property tax paid	1 800
Repairs and maintenance	2 930
Rent received from tenant	2 750
Wages	45 000
Stationery and office supplies	1 790
Insurance	1 680

Additional information

- 1 On 31 December 2008:

	\$
Fees due from clients (debtors)	9000
Wages owing	2000
Insurance prepaid	240
Stock of stationery and office supplies	35
Rent prepaid by tenant	150

- 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 \$8100.

- 3 A provision for doubtful debts is maintained at 2½% 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.



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.

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**REQUIRED**

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

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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 .....

..... [2]

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

Effect .....

Explanation .....

..... [2]

**[Total: 19]**

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Use*

- 3 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.

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

**REQUIRED**

*For  
Examiner's  
Use*

- (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

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..... [10]

- (b)** State **one** reason why it is possible to have a credit balance brought down on a sales ledger control account.

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..... [1]

(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".

For  
Examiner's  
Use

The first one has been completed as an example.

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

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.

For  
Examiner's  
Use

**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

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..... [2]

(iii) Time factor

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..... [2]

**[Total: 20]**

- 4 The Lobatse Rugby Club had the following assets and liabilities on 1 April 2008.

	\$
Equipment at book value	4400
Cash at bank	3700
Subscriptions prepaid by members	100
Subscriptions owed by members	50
Accumulated fund	8050

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

2008		\$	2009		\$
April 1	Balance b/d	3700	Mar 31	Transfer to bank	
2009				deposit a/c	2000
Mar 31	Subscriptions	2250		Equipment	1800
	Interest received	100		Secretarial expenses	210
	Entrance fees for			Advertising	40
	sports day	520		General expenses	490
				Rent	1530
				Sports day expenses	370
				Balance c/d	<u>130</u>
		<u>6570</u>			<u>6570</u>
2009					
April 1	Balance b/d	130			

The treasurer supplied the following additional information.

- 1 On 31 March 2009:

	\$
Subscriptions owing by members	200
Rent accrued	30
General expenses prepaid	20

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

**REQUIRED**

*For  
Examiner's  
Use*

- (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

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..... [7]





- (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.

Item .....

Explanation .....

.....

..... [2]

- (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.

Item .....

Explanation .....

.....

..... [2]

**[Total: 21]**

- 5 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:

ratio	Year ended 31 March 2008	Year ended 31 March 2009
percentage of gross profit to sales	25 %	21 %
percentage of net profit to sales	10 %	9 %

**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.

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

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:

		\$
Purchases – cash		4 000
	credit	320 000
Sales – cash		50 000
	credit	400 000

**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.

ratio	Year ended 31 March 2008	Year ended 31 March 2009
payment period for creditors	61 days	.....days
collection period for debtors	29 days	.....days

[4]

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]

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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.

For  
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Use

**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

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**(iii)** Accounting policies

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..... [4]

**[Total: 19]**





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