**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**Cambridge International General Certificate of Secondary Education**

# MARK SCHEME for the March 2015 series

# 0452 ACCOUNTING

**0452/22** Paper 2, maximum raw mark 120

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**1 (a)** Bad debts
Amounts owing to a business **(1)** which will not be paid by the credit customer **(1)**

Bad debts recovered
Amounts received **(1)** from a credit customer after the amount was written off as a bad debt **(1)**

Provision for doubtful debts
An estimate **(1)** of the amount which a business will lose because of bad debts **(1)** **[6]**

**(b)** Reduce credit sales/sell on a cash basis
Obtain references from new credit customers
Fix a credit limit for each customer
Improve credit control
Issue invoices and monthly statements promptly
Refuse further supplies until outstanding balance is paid
**Any 2 points (1) each** **[2]**

**(c)** A provision for doubtful debts ensures that
the profit for the year is not overstated **(1)**
the trade receivables are not overstated **(1)** **[2]**

**(d)** Nisha Sharma
Journal

| | | Debit $ | Credit $ | |
|---|---|---|---|---|
| **1** | Bad debts | 150 | | **(1)** |
| | AX Limited | | 150 | **(1)** |
| | Amount owed by AX Limited written off | | | **(1)** |
| **2** | Provision for doubtful debts | 21 | | **(1)** |
| | Income statement | | 21 | **(1)** |
| | Reduction in provision for doubtful debts | | | **(1)** |

**[6]**

**(e)**

| | Overstated $ | Understated $ |
|---|---|---|
| Bad debts written off | *150* | |
| Bad debts recovered | | 123 **(2)** |
| Adjustment to provision for doubtful debts | | 21 **(2)OF** |

**(1) for direction and (1) for amount for each item** **[4]**

**[Total: 20]**

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**2 (a)** $\frac{\$640}{1} \times \frac{100}{80} = \$800$ **(1)** **[1]**

**(b)** Any returns must be recorded at the price which the customer was originally charged for those goods. **(1)** **[1]**

**(c)**

| February | Transaction | Document |
|---|---|---|
| 4 | Payment | Cheque counterfoil **(1)** |
| 8 | Purchases | Invoice **(1)** |
| 14 | Purchases returns | Credit note **(1)** |

**[3]**

**(d)**

Nirmal Singh

Ansari Road account

| | | $ | | | $ | |
|---|---|---|---|---|---|---|
| 2015 | | | 2015 | | | |
| Feb 14 | Returns | 280 **(1)** | Feb 1 | Balance b/d | 560 | **(1)** |
| 26 | Bank | 546 **(1)** | 8 | Purchases | 640 | **(1)** |
| | Discount | 14 **(1)** | | | | |
| 28 | Balance c/d | 360 | | | | |
| | | 1200 | | | 1200 | |
| | | | 2015 | | | |
| | | | Mar 1 | Balance b/d | 360 | **(1)O/F** |

T Marks account

| | | $ | | | $ | |
|---|---|---|---|---|---|---|
| 2015 | | | 2015 | | | |
| Feb 4 | Bank | 200 **(1)** | Feb 1 | Balance b/d | 200 | **(1)** |
| 28 | Balance c/d | 690 | 10 | Bank (dis chq) | 200 | **(1)** |
| | | | 19 | Purchases | 480 | **(1)** |
| | | | 28 | Interest | 10 | **(1)** |
| | | 890 | | | 890 | |
| | | | 2015 | | | |
| | | | Mar 1 | Balance b/d | 690 | **(1)O/F** |

**+ (1) dates** **[13]**

**[Total: 18]**

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**3 (a)**

Amla Khan
Rates and insurance account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 2014 | | | | 2014 | | | |
| Jan 1 | Balance b/d | | | Jan 1 | Balance b/d | | |
| | Insurance | 700 | **(1)** | | Rates | | 480 **(1)** |
| Dec 31 | Bank - rates | 2560 | **(1)** | Dec 31 | Income statement | | |
| | Insurance | 2400 | **(1)** | | Rates | 1920 **(1)** | |
| | | | | | Insurance | 2300 **(1)** | 4220 |
| | | | | | Balance c/d | | |
| | | | | | Rates | 160 | |
| | | | | | Insurance | 800 | 960 |
| | | 5660 | | | | | 5660 |
| 2015 | | | | | | | |
| Jan 1 | Balance b/d | | | | | | |
| | Rates | 160 | | | | | |
| | Insurance | 800 | 960 **(2) CF** | | | | |
| | | | **(1) OF** | | | | |

**+ (1) dates** **[9]**

**(b)** Current assets **(1)**
Both the rates and insurance are prepaid at the end of the year **(1)** **[2]**

**(c)**

Amla Khan
Rent receivable account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 2014 | | | | 2014 | | | |
| Dec 31 | Income statement | 1200 | **(1)** | Oct 1 | Bank | 800 | **(1)** |
| | | | | Dec 31 | Balance c/d | 400 | |
| | | 1200 | | | | 1200 | |
| 2015 | | | | | | | |
| Jan 1 | Balance b/d | 400 | **(1)OF** | | | | |

**+ (1) dates** **[4]**

**(d)** Current assets **(1)**
Rent receivable is owed by the tenant **(1)** **[2]**

**[Total: 17]**

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**4 (a)** Gross profit = 164 000 – 125 542 = 38 458 **(1)**

$\frac{38\,458}{164\,000}$ **}(1)** $\times \frac{100}{1} = 23.45\%$ **(1)** **[3]**

**(b)** Decrease in selling price
Increase in trade discount allowed to customers
Selling at lower mark-up
Increase in cost price
Reduction in trade discount allowed by suppliers
Not taking advantage of bulk buying
**Any 2 reasons (1) each** **[2]**

**(c)** Profit for the year = 38 458 **OF** – 24 748 = 13 710 **(1)OF**

$\frac{13\,710}{164\,000}$ **OF}(1)** **}** $\times \frac{100}{1} = 8.36\%$ **(1)OF** **[3]**

**(d)** (18 150 + 15 300 + 120) : (10 960 + 7 150)
= 33 570 : 18 110 **(1) (whole formula)**
= 1.85 : 1 **(1)** **[2]**

**(e)** Current assets almost twice the current liabilities
Can meet the current liabilities from the current assets
Slightly lower than the "benchmark" of 2:1
Appears to be adequate
**Comments to be based on answer to (d)**
**Any 2 comments (1) each** **[2]**

**(f)** (15 300 + 120) : (10 960 + 7 150)
= 15 420 : 18 110 **(1) (whole formula)**
= 0.85: 1 **(1)** **[2]**

**(g)** Increase in bank overdraft/change from debit to credit bank balance
Purchase of non-current assets
Repayment of long-term loan
Increase in inventory
Increase in dividends paid
**Any 1 reason (1)** **[1]**

**(h)** $\frac{15\,300}{154\,400} \times \frac{365}{1}$ **(1) (whole formula)**
= 36.17 = 37 days **(1)** **[2]**

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**(i)** Unsatisfied **(1)** – if answer to **(h)** is 31 days or over
**Or** Satisfied **(1)** – if answer to **(h)** is 30 days or less

Taking 7 days more than credit period allowed
Have to wait longer than expected to receive the money
May have knock-on effect for paying trade payables
May mean shortage of funds available for other things
**Or appropriate comments based on OF answer to (h)**
**Any 1 comment (1)** **[2]**

**[Total: 19]**

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**5 (a)**

LWS Limited
Income Statement for the year ended 30 November 2014

| | $ | $ | |
|---|---|---|---|
| Fees from clients (199 500 **(1)** + 4500 **(1)**) | 204 000 | | |
| Other income | 17 300 | 221 300 | |
| General expenses | 36 140 | | |
| Wages (98 200 **(1)** + 12 600 **(1)**) | 110 800 | | |
| Insurance (3450 **(1)** – 690 **(1)**) | 2 760 | | |
| Depreciation | | | |
| Equipment (20% x (65 000 – 23 400) | 8 320 **(1)** | | |
| Fixtures and fittings | | | |
| ((10% × 24 000)**(1)** + (10% × 7200 × 5/12) **(1)**) | 2 700 | 160 720 | |
| Profit for the year | | 60 580 | **(1)OF** |

**[10]**

**(b)**

LWS Limited
Statement of Changes in Equity for the year ended 30 November 2014

| Details | Share capital $ | General reserve $ | Retained earnings $ | Total $ | |
|---|---|---|---|---|---|
| On 1 December 2013 | 350 000 | 95 000 | 13 200 | 458 200 | |
| Profit for the year | | | 60 580 | 60 580 | **(1)OF** |
| Dividend paid – interim | | | (17 500) | (17 500) | **(1)** |
| Dividend paid – final | | | (35 000) | (35 000) | **(1)** |
| Transfer to general reserve | | 12 000 | (12 000) | | **(1)** |
| Share issue | 50 000 | | | 50 000 | **(1)** |
| On 30 November 2014 | 400 000 | 107 000 | 9 280 | 516 280 | **(1)OF** |

**[6]**

**(c)** Long term loans
Debenture holders are not members of the company
Do not carry voting rights
Carry a fixed rate of interest
Interest is not dependent on the company's profit
Are often secured on the assets of the company
Debenture holders are repaid before the shareholders in a winding-up
**Any 2 features (1) each** **[2]**

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**(d)** Carry a fixed rate of dividend
Dividend may not be paid if there is not enough profit
Dividend is paid before ordinary share dividend
Preference shareholders are members of the company
Do not usually carry voting rights
Capital is repaid before ordinary share capital in a winding-up
Are not secured on the assets of the company
**Any 2 features (1) each** **[2]**

**(e)** No prior claims on the profit
No fixed interest or dividend to pay
All the shares will rank equally for dividend
No prior claims on the assets in a winding-up
No fixed date for repayment
**Any 2 points (1) each** **[2]**

**[Total: 22]**

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**6 (a)** Additional finance is available
Additional knowledge, skills and experience are available
The risks are shared
The losses are shared
The responsibilities are shared
Discussions can take place before decisions are taken
**Any 2 advantages (1) each** **[2]**

**(b)** To avoid misunderstandings and disagreements in the future **(1)** **[1]**

**(c)**

Ben and Tom Panesar
Profit and Loss Appropriation Account for the year ended 31 January 2015

| | | $ | | $ |
|---|---|---|---|---|
| Profit for the year | | | | 27 920 |
| Interest on drawings | Ben | 490 | **}** | |
| | Tom | 1 040 | **}(1)** | 1 530 |
| | | | | 29 450 |
| Interest on capital | *Ben | | | |
| | 3% × 90 000 × 6/12 | 1 350 | **(1)** | |
| | 3% × 100 000 × 6/12 | 1 500 | **(1)** | |
| | | 2 850 | | |
| | Tom | | | |
| | 3% × 60 000 | 1 800 | **(1)** | |
| | | 4 650 | | |
| Partnership salary | Tom | | | |
| | (3000 **(1)** + 8000 **(1)**) | 11 000 | | 15 650 |
| Residual profit | | | | 13 800 |
| Share of profit | Ben | 9 200 | **(1)OF** | |
| | Tom | 4 600 | **(1)OF** | |
| | | | | 13 800 |

**[8]**

*OR 3% x 90 000 2 700 **(1)**
3% x 10 000 × 6/12 150 **(1)**

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**(d)**

Ben and Tom Panesar
Statement of Financial Position at 31 January 2015

| | $ | $ | $ | |
|---|---|---|---|---|
| Assets | | | | |
| Non-current assets | | | | |
| Premises (cost) | | | 95 000 | |
| Machinery and equipment (book value) | | | 46 500 | |
| | | | 141 500 | **(1)** |
| Current assets | | | | |
| Inventory | | | 28 750 | |
| Trade receivables | | | 30 360 | |
| Bank | | | 5 870 | |
| | | | 64 980 | **(1)** |
| Total assets | | | 206 480 | |
| Capital and liabilities | | | | |
| | Ben | Tom | Total | |
| Capital accounts | 100 000 | 60 000 | 160 000 | **(1) both** |
| Current accounts | | | | |
| Interest on loan | | 600 | **(1)** | |
| Interest on capital | 2 850 | 1 800 | **(1)OF (both)** | |
| Salary | | 11 000 | **(1)OF** | |
| Profit share | 9 200 | 4 600 | **(1)OF (both)** | |
| | 12 050 | 18 000 | | |
| Drawings | 9 800 | 20 800 | **(1) (both)** | |
| Interest on drawings | 490 | 1 040 | **(1) (both)** | |
| | 10 290 | 21 840 | | |
| Closing balance | 1 760 **(1)OF** | (3 840) **(1)OF** | | |
| | | | (2 080) | |
| | | | 157 920 | |
| Non-current liabilities | | | | |
| Loan – Tom | | | 15 000 | **(1)** |
| Current liabilities | | | | |
| Trade payables | | | 32 170 | |
| Other payables | | | 1 390 | |
| | | | 33 560 | **(1)** |
| Total liabilities | | | 206 480 | |

**[13]**

**[Total: 24]**

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Alternate presentation of current accounts.

Current accounts

| | | | Ben $ | Tom $ | | | | Ben $ | Tom $ |
|---|---|---|---|---|---|---|---|---|---|
| 2015 | | | | | 2015 | | | | |
| Jan 31 | Drawings | **(1)** | 9 800 | 20 800 | Jan 31 | Interest on loan | **(1)OF** | | 600 |
| | Interest on Drawing | **(1)** | 490 | 1 040 | | Interest on capital | **(1)OF** | 2 850 | 1 800 |
| | Balance c/d | | 1 760 | | | Salary | **(1)** | | 11 000 |
| | | | | | | Profit share | **(1)OF** | 9 200 | 4 600 |
| | | | | | | Balance c/d | | | 3 840 |
| | | | 12 050 | 21 840 | | | | 12 050 | 21 840 |

**+ (1) OF for each balance if shown in statement of financial position making a total of (8) for the current accounts**

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