Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

6433712633

ACCOUNTING **0452/22**

Paper 2 **February/March 2015**

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 an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, 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 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.

This document consists of **21** printed pages and **3** blank pages.

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CAMBRIDGE International Examinations

1 **(a)** Explain the meaning of the following terms.

Bad debts

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Bad debts recovered

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Provision for doubtful debts

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.....

..... [6]

(b) Suggest **two** ways in which the risk of bad debts may be reduced.

1 .....

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2 .....

..... [2]

(c) Explain why maintaining a provision for doubtful debts is an application of the principle of prudence.

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.....

..... [2]

Nisha Sharma is a trader. Her financial year ends on 31 January. She maintains a provision for doubtful debts at 3% of the trade receivables at the end of each year.

She provided the following information.

On 1 February 2014 the provision for doubtful debts amounted to $435.

During the year ended 31 January 2015 bad debts recovered amounted to $123.

On 31 January 2015 trade receivables amounted to $13 950, including $150 owed by AX Limited which should be written off. The provision for doubtful debts is to be adjusted to 3% of the remaining trade receivables.

REQUIRED

(d) Prepare journal entries on 31 January 2015 to record:

1 writing off the amount owed by AX Limited
2 adjusting the provision for doubtful debts

Narratives **are** required.

Nisha Sharma
Journal

		Debit $	Credit $
1	……	……..	……..
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	……	……..	……..
	……	……..	……..
2	……	……..	……..
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[6]

(e) Complete the following table to show the effect on the profit for the year ended 31 January 2015 if the items listed were omitted from the income statement.

The first one has been completed as an example.

	Overstated $	Understated $
Bad debts written off	*150*	
Bad debts recovered		
Adjustment to provision for doubtful debts		

[4]

[Total: 20]

2 Nirmal Singh is a trader. He maintains a full set of accounting records. All purchases are made on credit terms. His purchases journal and purchases returns journal for February 2015 are shown below.

Purchases Journal

Date	Name	Amount $
2015 Feb 8	Ansari Stores (after 20% trade discount)	640
Feb 19	T Marks	480

Purchases Returns Journal

Date	Name	Amount $
2015 Feb 14	Ansari Stores (after 20% trade discount)	280

REQUIRED

(a) Calculate the list price of the goods purchased by Ansari Stores on 8 February.

.....

..... [1]

(b) State why trade discount was deducted from the goods returned on 14 February.

.....

.....

..... [1]

On 1 February 2015 Nirmal Singh's purchases ledger included the following accounts.

	$
Ansari Stores	560 credit
T Marks	200 credit

The following additional transactions took place in February 2015.

Feb 4 Paid $200 by cheque to T Marks

10 The bank dishonoured the cheque paid to T Marks on 4 February

26 Paid $546 to Ansari Stores by cheque in full settlement of the balance owing on 1 February 2015

28 T Marks charged $10 interest on the overdue account.

REQUIRED

(c) Name the business document Nirmal Singh would use to record the following transactions. You can find the transactions on page **5** and **6**.

February	Transaction	Document
4	Payment	
8	Purchases	
14	Purchases returns	

[3]

(d) Prepare the following accounts in the ledger of Nirmal Singh for the month of February 2015. Balance the accounts and bring down the balances on 1 March 2015.

Nirmal Singh
Ansari Stores account

Date	Details	$	Date	Details	$
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T Marks account

Date	Details	$	Date	Details	$
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[13]

[Total: 18]

3 Amla Khan is a trader. Her financial year ends on 31 December.

Amla Khan maintains one combined account for rates and insurance. She provided the following information.

On 1 January 2014 three months' rates, $480, was outstanding and four months' insurance, totalling $700, was prepaid.

During the year ended 31 December 2014 the following payments were made by cheque.

	$
Rates 16 months to 31 January 2015	2560
Insurance 12 months to 30 April 2015	2400

REQUIRED

(a) Prepare the rates and insurance account in the ledger of Amla Khan for the year ended 31 December 2014. Balance the account and bring down the balances on 1 January 2015.

Amla Khan
Rates and insurance account

Date	Details	$	Date	Details	$
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[9]

(b) Name the section of the statement of financial position at 31 December 2014 in which the balance on the rates and insurance account would appear.

Give a reason for your answer.

Section of statement of financial position .....

Reason .....

.....

..... [2]

On 1 October 2014 Amla Khan decided to sublet part of her premises at an annual rent of $4800. On that date she received a cheque for two months' rent.

REQUIRED

(c) Prepare the rent receivable account in the ledger of Amla Khan for the year ended 31 December 2014. Balance the account and bring down the balance on 1 January 2015.

Amla Khan
Rent receivable account

Date	Details	$	Date	Details	$
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[4]

(d) Name the section of the statement of financial position at 31 December 2014 in which the balance on the rent receivable account would appear.

Give a reason for your answer.

Section of statement of financial position .....

Reason .....

.....

..... [2]

[Total: 17]

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4 The financial year of Joda Limited ends on 31 January. The following information is available for the year ended 31 January 2015.

	$
Revenue	164 000
Cost of sales	125 542
Expenses	24 748

REQUIRED

(a) Calculate the gross profit as a percentage of revenue. The calculation should be correct to **two** decimal places.

.....

.....

.....

..... [3]

(b) Suggest **two** reasons why the gross profit as a percentage of revenue is lower than it was for the previous financial years.

1 .....

.....

2 .....

..... [2]

(c) Calculate the profit for the year as a percentage of revenue. The calculation should be correct to **two** decimal places.

.....

.....

.....

..... [3]

Joda Limited provided the following information at 31 January 2015.

	$
Inventory	18 150
Bank overdraft	7 150
Trade receivables	15 300
Trade payables	10 960
Petty cash	120

REQUIRED

(d) Calculate the current ratio. The calculation should be correct to **two** decimal places.

.....

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..... [2]

(e) Comment on your answer to **(d)**.

.....

.....

..... [2]

(f) Calculate the quick ratio. The calculation should be correct to **two** decimal places.

.....

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..... [2]

(g) Suggest **one** reason why the quick ratio is lower than it was in the previous financial years.

.....

.....

..... [1]

Joda Limited provided the following information for the year ended 31 January 2015.

1 The total revenue was

	$
Cash sales	9 600
Credit sales	154 400

Credit customers are allowed a credit period of 30 days.

2 The total of the trade receivables on 31 January 2015 amounted to $15 300.

REQUIRED

(h) Calculate the collection period for trade receivables. Round your answer up to the next whole day.

.....

.....

..... [2]

(i) State whether Joda Limited would be satisfied with the collection period for trade receivables. Give a reason for your answer.

Satisfied or unsatisfied .....

Reason .....

.....

..... [2]

[Total: 19]

5 LWS Limited is an advertising agency. Their financial year ends on 30 November. They provided the following information.

	$
At 1 December 2013	
Ordinary share capital ($1 shares)	350 000
General reserve	95 000
Retained earnings	13 200
Equipment at cost	65 000
Fixtures and fittings at cost	24 000
Provision for depreciation of equipment	23 400
Provision for depreciation of fixtures and fittings	9 600
For the year ended 30 November 2014	
Fees from clients	199 500
General expenses	36 140
Wages	98 200
Insurance	3 450
Other income	17 300
Fixtures and fittings purchased 1 July 2014	7 200
Proceeds from issue of $1 ordinary shares	50 000
Interim dividend paid on ordinary shares	17 500
Final dividend paid on ordinary shares	35 000

Additional information

1 At 30 November 2014 fees owing from clients amounted to $4500 and wages owing to employees amounted to $12 600.

2 The insurance is for a period of 15 months to 28 February 2015.

3 Equipment is depreciated at 20% per annum using the reducing (diminishing) balance method.

4 Fixtures and fittings are depreciated at 10% per annum on cost. Depreciation on new fixtures and fittings is calculated from the date of purchase.

5 $12 000 was transferred to the general reserve on 30 November 2014.

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REQUIRED

(a) Prepare the income statement for the year ended 30 November 2014.

LWS Limited
Income Statement for the year ended 30 November 2014

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[10]

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[Turn over

(b) Complete the following statement of changes in equity for the year ended 30 November 2014.

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	……..	……..	……..	……..
Dividend paid – interim	……..	……..	……..	……..
Dividend paid – final	……..	……..	……..	……..
Transfer to general reserve	……..	……..	……..	……..
Share issue	……..	……..	……..	……..
On 30 November 2014	……..	……..	……..	……..

[6]

LWS Limited requires $100 000 in order to expand the business. After the first two years this should increase the annual profit before interest by $30 000.

It is proposed to raise the funds by either issuing 3% debentures or 4% preference shares.

REQUIRED

(c) State **two** features of debentures.

1 .....

.....

2 .....

..... [2]

(d) State **two** features of preference shares.

1 .....

.....

2 .....

..... [2]

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(e) Suggest **two** reasons why it may be more beneficial to ordinary shareholders if the additional funds were raised by an issue of ordinary shares.

1 .....

.....

2 .....

..... [2]

[Total: 22]

6 **(a)** State **two** advantages of being a partner rather than a sole trader.

1 .....

.....

2 .....

..... [2]

(b) State **one** reason why a partnership agreement should be drawn up when a partnership is formed.

.....

..... [1]

Ben and Tom Panesar formed a partnership on 1 February 2014.

The following information is available.

1 On 1 February 2014 Ben contributed $90 000 capital and Tom contributed $60 000.
On 1 August 2014 Ben contributed a further $10 000 capital.
Interest on capital is allowed at the rate of 3% per annum.

2 Tom was to be entitled to an annual salary of $9000 per annum for the first four months of the first financial year. After that date the salary was to increase to $12 000 per annum.

3 During the year ended 31 January 2015 Ben's drawings amounted to $9800 and Tom's drawings amounted to $20 800.

4 Interest on drawings for the year ended 31 January 2015 amounted to $490 for Ben and $1040 for Tom.

5 Profits and losses are shared 2/3 to Ben and 1/3 to Tom.

6 On 1 February 2014 Tom made a loan of $15 000 to the business.
The loan is repayable on 31 January 2020.
Loan interest of 4% per annum is to be credited to Tom's current account.

7 The profit for the year ended 31 January 2015 (after loan interest) was $27 920.

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REQUIRED

(c) Prepare the profit and loss appropriation account for the year ended 31 January 2015.

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

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[8]

Ben and Tom Panesar provided the following information on 31 January 2015.

	$
Premises at book value	95 000
Machinery and equipment at book value	46 500
Inventory	28 750
Trade receivables	30 360
Trade payables	32 170
Other payables	1 390
Bank	5 870 debit

REQUIRED

(d) Prepare the statement of financial position at 31 January 2015.

The calculation of the current account balances may be shown within the statement of financial position **or** as separate calculations in the space provided below.

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

	$	$	$
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[13]

[Total: 24]

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