Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

3159161452

ACCOUNTING **0452/22**

Paper 2 **February/March 2017**

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

[Turn over

1 Mandeep is a trader who maintains a full set of accounting records including a three column cash book.

His transactions for December 2016 included the following:

December	4	Paid $387 by cheque for repairs to office equipment
	11	Received a cheque from Jabin to settle his account of $300 less 2% cash discount
	15	Paid a cheque, $702, to Rama, after deducting a cash discount of 2½%
	27	Made cash sales, $6795
	29	Withdrew cash, $5000, for personal use
	31	Paid all the cash into the bank except $200

REQUIRED

(a) Complete Mandeep's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 January 2017. [10]

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Mandeep
Cash Book

Date	Details	Discount allowed	Cash	Bank	Date	Details	Discount received	Cash	Bank
2016		$	$	$	2016		$	$	$
Dec 1	*Balance b/d*	.....	*150*	.....	*Dec 1*	*Balance b/d*	.....	.....	*2590*
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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.....	.....	.....	.....	.....	.....	.....	.....	.....	..... .

Mandeep's financial year ends on 31 December. He prepared his draft financial statements for the year ended 31 December 2016, but did not close or balance his ledger accounts.

Mandeep provided the following information at 31 December 2016.

1 At 31 December 2016 the inventory was valued at $13 420.

2 The office fixtures, original cost $9500, are depreciated at 20% per annum using the reducing (diminishing) balance method.

3 The general expenses relating to the financial year ended 31 December 2016 amounted to $9850.

4 Rent receivable owing by the tenant at 31 December 2016 amounted to $460.

5 No entry has been made in the accounting records for a motor vehicle, $16 000, introduced into the business by Mandeep on 30 December 2016.

6 The draft profit for the year ended 31 December 2016 was $21 600.

REQUIRED

(b) Complete the following accounts in Mandeep's ledger at 31 December 2016.

Close the accounts by balancing or by making a transfer to an appropriate account.

Mandeep
Inventory account

Date *2016*	Details	$	Date	Details	$
Jan 1	*Balance b/d*	*12 650*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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Provision for depreciation of office fixtures account

Date	Details	$	Date	Details	$
			2016		
.....	.....	.....	*Jan 1*	*Balance b/d*	*3420*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

General expenses account

Date	Details	$	Date	Details	$
2016					
Dec 31	*Total payments*	*9475*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Rent receivable account

Date	Details	$	Date	Details	$
			2016		
.....	.....	.....	*Dec 31*	*Total receipts*	*5060*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Drawings account

Date	Details	$	Date	Details	$
2016					
Dec 31	*Total drawings*	*8950*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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[Turn over

Capital account

Date	Details	$	Date	Details	$
			2016		
.....	.....	.....	*Jan 1*	*Balance b/d*	*63000*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[14]

[Total: 24]

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2 Vinita's accountant prepared a set of financial statements at the end of her first year of trading on 31 December 2016.

Vinita was not familiar with some of the terms used in these statements.

REQUIRED

(a) State the meaning of **each** of the following terms.

(i) Income statement

.....

.....[1]

(ii) Statement of financial position

.....

..... [1]

(iii) Non-current assets

.....

.....

.....[2]

(iv) Non-current liabilities

.....

.....[1]

(v) Capital

.....

.....[1]

(b) Give **one** example of an intangible asset.

.....[1]

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The accountant calculated the following ratios for Vinita's business on 31 December 2016.

Current ratio	3.62 : 1
Quick ratio	0.59 : 1

REQUIRED

(c) Comment on Vinita's current ratio.

.....

.....

.....

.....[2]

(d) Explain why the quick ratio is a better measure of liquidity than the current ratio.

.....

.....

.....

.....[2]

(e) Suggest **two** actions Vinita could take to increase her quick ratio.

1 .....

.....

2 .....

.....[2]

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Vinita wished to compare her results with those of a similar business and was able to obtain the financial statements of a business in the same trade.

REQUIRED

(f) State how **each** of the following may be regarded as a limitation of financial statements.

(i) Historical cost

.....

.....

.....

.....[2]

(ii) Non-financial factors

.....

.....

.....

.....[2]

[Total: 17]

3 The financial year of Doshi Manufacturing Company ends on 31 January. The following trial balance was extracted from the books on 31 January 2017.

	$	$
Inventory 1 February 2016		
Raw materials	49 500	
Work in progress	28 750	
Finished goods	63 100	
Revenue		1 246 850
Returns inwards	12 250	
Purchases		
Raw materials	394 600	
Finished goods	21 700	
Returns of purchases of raw materials		16 400
Carriage inwards on purchases of finished goods	1 500	
Wages		
Factory operatives	297 100	
Factory supervisors	152 000	
Office and sales staff	108 700	
General expenses	160 000	
Premises at cost	366 000	
Factory machinery at cost	250 000	
Office equipment at cost	72 000	
Loose tools at valuation	21 150	
Provision for depreciation 1 February 2016		
Factory machinery		122 000
Office equipment		32 400
Capital 1 February 2016		630 000
Drawings	96 750	
Trade receivables	76 150	
Trade payables		41 500
Interest-free short term loan		50 000
Bank overdraft		32 100
	2 171 250	2 171 250

The following additional information is available.

1 At 31 January

		$
inventory	raw materials	41 100
	work in progress	31 250
	finished goods	59 100
wages accrued	factory supervisors	12 000
	office staff	4 300
value of loose tools		19 050

2 The factory machinery is being depreciated at 20% per annum on the reducing (diminishing) balance method.

3 The office equipment is being depreciated at 15% per annum on the straight line (equal instalment) method.

4 The loose tools are revalued at the end of each financial year.

5 The general expenses are to be apportioned 3/5 to the factory and 2/5 to the office.

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REQUIRED

(a) Select the relevant figures and prepare the manufacturing account for the year ended 31 January 2017.

Doshi Manufacturing Company
Manufacturing Account for the year ended 31 January 2017

	$	$	$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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.....	.....	.....	.....

[12]

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[Turn over

(b) Select the relevant figures and prepare the income statement for the year ended 31 January 2017.

Doshi Manufacturing Company
Income Statement for the year ended 31 January 2017

	$	$	$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

[11]

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(c) Suggest **one** reason why the loose tools are revalued at the end of each financial year rather than by using the straight line (equal instalment) or reducing (diminishing) balance method of depreciation.

.....

.....

.....[1]

[Total: 24]

4 Lahiru is a trader. The following account appeared in his ledger.

Nusrath account

Date 2017	Details	$	Date 2017	Details	$
Feb 7	Returns	18	Feb 1	Balance b/d	440
18	Bank	429	4	Purchases	650
	Discount	11			
28	Contra to sales ledger	68			

REQUIRED

(a) State the section of **Lahiru's** ledger in which the above account would appear.

.....[1]

(b) Explain the entry on 7 February and state where the double entry would be made in **Lahiru's** accounts.

Explanation.....

.....

Double entry .....[2]

(c) **(i)** Calculate the percentage of discount which was deducted on 18 February.

.....

.....[1]

(ii) Suggest **one** reason why this discount was deducted.

.....

.....[1]

(d) Suggest why the contra entry was made.

.....

.....[1]

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(e) Prepare the journal entry **Nusrath** would make to record the contra entry. A narrative **is** required.

Nusrath
Journal

	Debit $	Credit $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[3]

(f) **(i)** Calculate the balance of **Lahiru's** account which would appear in **Nusrath's** ledger on 28 February 2017.

.....

.....[1]

(ii) State the section of **Nusrath's** statement of financial position on 28 February 2017 in which the balance of **Lahiru's** account would appear.

.....[1]

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[Turn over

Lahiru's financial year ends on 28 February. He maintains a provision for doubtful debts of 4% of trade receivables at the end of each year.

On 1 March 2016 Lahiru's provision for doubtful debts amounted to $500. On 28 February 2017 his trade receivables owed $17 900.

REQUIRED

(g) Prepare the provision for doubtful debts account for the year ended 28 February 2017. Balance the account and bring down the balance on 1 March 2017.

Lahiru
Provision for doubtful debts account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[4]

(h) Explain how Lahiru is applying the accounting principle of prudence by maintaining a provision for doubtful debts.

.....

.....

.....

.....[2]

(i) Explain how Lahiru is applying the accounting principle of accruals (matching) by maintaining a provision for doubtful debts.

.....

.....

.....

.....[2]

[Total: 19]

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5 Jai's financial year ends on 31 January. He has not maintained a full set of accounting records.

All goods are sold on a cash basis and all purchases are made on credit terms. Jai has no record of his sales and purchases for the year ended 31 January 2017.

The following information was available.

	$
On 1 February 2016	
Amount owing to credit suppliers	4600
Inventory	2900
During the year ended 31 January 2017	
Amounts paid to credit suppliers	32725
Cash discount received	640
Interest charged by credit supplier on overdue account	15
At 31 January 2017	
Amount owing to credit suppliers	5350
Inventory	3400

The gross profit margin is 20%.

REQUIRED

(a) Calculate the purchases for the year ended 31 January 2017.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....[6]

(b) Prepare an income statement (trading account section) to calculate the revenue for the year.

Jai
Income Statement (Trading Account section) for the year ended 31 January 2017

	$	$
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[7]

(c) Calculate the rate of inventory turnover.

The calculation should be correct to **two** decimal places.

.....

.....

.....

.....[2]

(d) Suggest **two** ways in which the rate of inventory turnover could be improved.

1 .....

.....

2 .....

.....[2]

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Jai always values his inventory at the lower of cost and net realisable value.

(e) Name the accounting principle which is being applied.

.....[1]

(f) Complete the following table to indicate the effect of Jai overvaluing his inventory at 31 January 2017. An example has been provided.

	overstated	understated
Current assets at 31 January 2017	✓	
Profit for the year ended 31 January 2017		
Profit for the year ending 31 January 2018		

[2]

Jai is considering increasing his gross profit margin.

REQUIRED

(g) Suggest **two** ways in which Jai might achieve this increase.

1 .....

.....

2 .....

.....[2]

[Total: 22]

6 Amina is a trader. Her financial year ends on 31 December.

The totals of her trial balance on 31 December 2016 did not agree. Amina entered the difference in a suspense account and prepared draft financial statements.

The following errors were later discovered.

1 One page of the sales journal had been undercast by $1000.

2 Repairs to office equipment, $484, had been treated as capital expenditure.

3 The total of the sales returns journal, $960, had been credited to the purchases returns account in the ledger.

4 The bank balance, $1500, had been treated as a bank overdraft in the trial balance.

5 A credit note received from AK Stores for $210 had been correctly entered in the purchases returns journal but had been credited to the account of the supplier as $120.

REQUIRED

(a) Prepare the journal entries to correct errors 3–5. Narratives are **not** required.

Amina
Journal

	Debit $	Credit $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[7]

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(b) Complete the following table to show the effect, if any, that **correcting each error** would have on the draft profit. Where an error has no effect on profit, place a (✓) in the No Effect column.

Error	Effect on draft profit for the year of correcting the error		
	Increase $	Decrease $	No Effect
1			
2			
3			
4			
5			

[7]

[Total: 14]

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