CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2014 series

0452 ACCOUNTING

0452/23 Paper 2, maximum raw mark 120

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1 (a) Nasir Manufacturing Limited
Manufacturing Account for the year ended 31 January 2014

	$		$	
Cost of materials used				
Opening inventory of raw materials			23 500	
Purchases of raw materials			124 600	**(1)**
			148 100	
Closing inventory of raw materials			26 100	
			122 000	**(1)**
Direct wages (136 000 + 2 200)			138 200	**(1)**
Direct expenses			16 300	**(1)**
Prime cost			276 500	**(1)**
Factory overheads				
Wages of factory supervisors	31 400	**}**		
General factory expenses	19 208	**}(1)**		
Rates & insurance (¾ × (6 360 – 120))	4 680	**(2)**		
Depreciation Plant & machinery				
(20% × (94 000 – 33 840)	12 032	**(1)**		
Loose tools				
(2 650 + 310 – 2 740)	220	**(1)**	67 540	
			344 040	**(1)OF**
Opening work in progress			11 020	**(1)**
			355 060	
Closing work in progress			12 060	**(1)**
Cost of production			343 000	**(1)OF**

Horizontal format acceptable **[14]**

(b) Nasir Manufacturing Limited
Income Statement for the year ended 31 January 2014

	$		$		$	
Revenue					539 000	
Cost of sales						
Opening inventory finished goods			18 100	**(1)**		
Cost of production			343 000	**(1)OF**		
Purchases finished goods	16 900	**(1)**				
Less Returns	200	**(1)**	16 700			
			377 800			
Less Closing inventory finished goods			19 300	**(1)**	358 500	
Gross profit					180 500	**(1)OF**

Horizontal format acceptable **[6]**

[Total: 20]

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2 (a)

Leroy Smith
Stationery account

		$				$	
2013				2013			
April 1	Balance b/d	144	**(1)**	Aug 1	Drawings	26	**(1)**
June 30	Bank	368	**(1)**	2014			
				Mar 31	Income statement	394	**(1)**
					Balance c/d	92	**(1)**
		512				512	
2014							
April 1	Balance b/d	92	**(1)**				

Three column running balance format acceptable **[6]**

(b) The business entity principle has been applied when the stationery taken for personal use was transferred from the stationery account to the drawings account. **[2]**

(c)

Leroy Smith
Rent and rates account

		$				$	
2013				2013			
April 1	Balance (rates) b/d	380	**(1)**	April 1	Balance (rent) b/d	260	**(1)**
2014				2014			
Mar 31	Bank (rates)	2470	**} (1)**	Mar 31	Income statement	5400	**(1)**
	Bank (rent)	3380	**}**		Balance (rates) c/d	570	**(1)**
		6230				6230	
2014							
April 1	Balance b/d	570	**(1)**				

Three column running balance format acceptable **[6]**

(d) The accruals principle has been applied when only the expense for the year was transferred to the income statement. **[2]**

(e) Capital receipts
Amounts received which do not form part of the day-to-day trading activities. **(1)**

Capital expenditure
Money spend on acquiring improving and installing non-current assets. **(1)**

Revenue receipts
Amounts received in the day-to-day trading activities from revenue and other items of income. **(1)**

Revenue expenditure
Money spent on running a business on a day-to-day basis. **(1)** **[4]**

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(f)

non-current assets at 31 March 2014		profit for the year ended 31 March 2014	
Overstated	Understated	Overstated	Understated
✓ **(1)**		✓ **(1)**	

[2]

[Total: 22]

3 (a) (i) The straight line method of depreciation uses the same amount of depreciation each year. **[1]**

(ii) This method is used where each year is expected to benefit equally from the use of the asset. **[1]**

(b) (i) The reducing balance method of depreciation uses the same percentage rate of depreciation each year, but it is calculated on the book value at the end of each year. **[1]**

(ii) This method is used where the greater benefits from the use of the asset will be gained in the early years of its life. **[1]**

(c) 1 Computer equipment – reducing balance method **(1)**
2 Buildings – straight line method **(1)**
3 Motor vehicle – reducing balance method **(1)** **[3]**

(d) (i) The asset is valued at the end of each year and the difference between the opening and closing value is the depreciation for the year. **[1]**

(ii) This method is used where it is impractical or difficult to maintain detailed records of the asset. **[1]**

(iii) Loose tools, packing cases, small items of equipment
Or other suitable example
Any 1 example (1) **[1]**

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(e)

Tony Yeo

Equipment account

		$				$	
2013				2013			
May 1	Balance b/d	8600		Oct 31	Disposals	2000	**(1)**
Nov 1	New2You	3400	**(1)**	2014			
				Apl 30	Balance c/d	10000	
		12000				12000	
2014							
May 1	Balance b/d	10000	**(1)OF**				**[3]**

Provision for depreciation of equipment account

		$				$		
2013				2013				
Oct 31	Disposals	800	**(2)**	May 1	Balance b/d	3260		
2014				2014				
Apl 30	Balance c/d	4120		Apl 30	Income statement			
					20% × 6600	1320	**(1)**	
					20% × 3400 × ½	340	**(1)**	
		4920				4920		
				2014				
				May 1	Balance b/d	4120	**(1)OF**	**[5]**

Disposal of equipment account

		$				$		
2013				2013				
Oct 31	Equipment	2000	**(1)OF**	Oct 31	Prov for dep	800	**(1)OF**	
					Cash	750	**(1)**	
				2014				
				Apl 30	Income statement	450	**(1)OF**	
		2000				2000		**[4]**

Three column running balance format acceptable

[Total: 22]

4 **(a)** $30000 × 5% = $1500 **(1)**

$50000 × 6% = $3000 **(1)**

$70000 × 8% = $5600 **(1)** **[3]**

(b) To indicate that part of the profit is for long term use within the company and is not available for distribution. **[1]**

(c)

	$		$		
Profit before interest and dividends			18600		
Less Debenture interest	1500	**(1)**			
Preference share dividend	3000	**(1)**			
Ordinary share dividend	5600	**(1)**			
Transfer to general reserve	4000	**(1)**	14100		
Profit retained in the year			4500	**(1)OF**	**[5]**

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(d) LWS Ltd
Extract from Statement of Financial Position at 30 April 2014

	$	
Capital and reserves		
140 000 Ordinary shares of $0.50 each	70 000	**}**
50 000 6% Preference shares of $1 each	50 000	**}(1)**
General reserve	4 000	**(1)**
Retained profits (7 500 **(1)** + 4 500 **(1)OF**)	12 000	

[4]

(e) Non-current liabilities **[1]**

(f) **(i)** Current liabilities **[1]**

(ii) $750 **[1]**

[Total: 16]

5 **(a)** To ensure that the totals of the trial balance agree **(1)**
To allow draft financial statements to be prepared **(1)** **[2]**

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(b)

Uzma Khan
Journal

		Debit $	Credit $	
1	Suspense Rent Correction of error of transposition	270	270	**(1)** **(1)** **(1)**
2	Drawings Wages Correction of error, drawings debited to wages	400	400	**(1)** **(1)** **(1)**
3	Discount allowed Suspense Correction of error, discount not transferred to ledger	43	43	**(1)** **(1)** **(1)**
4	Mona Suspense Amina Correction of error, receipt from Amina $2000 entered as $200 in Mona's account	200 1800	2000	**(1)** **(1)** **(1)** **(1)**

4	**Alternative presentation** Mona Suspense Suspense Amina Correction of error, receipt from Amina $2000 entered as $200 in Mona's account	 200 2000	 200 2000	 **(1)** **}** **} (1)** **(1)** **(1)**

[13]

(c)

Error	Effect on profit for the year		
	Overstated $	Understated $	No effect
2		400 **(2)**	
3	43 **(2)**		
4			No effect **(2)**

[6]

[Total: 21]

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6 (a)

Ratio	Year ended 31 March 2014
percentage of gross profit to revenue (sales)	31.11 % **(2)**
percentage of profit for the year to revenue (sales)	7.78 % **(2)OF**
current ratio	1.09 : 1 **(2)**
quick ratio	0.69 : 1 **(2)**

[8]

Calculations

Percentage of gross profit to revenue

$\frac{450\,000 - 310\,000}{450\,000}$ **(1)** $\times \frac{100}{1}$ = 31.11% **(1)**

Percentage of profit for the year to revenue

$\frac{140\,000}{450\,000}$ **O/F** $- 105\,000$ **(1)OF** $\times \frac{100}{1}$ = 7.78% **(1)OF**

Current ratio

(21 500 + 100 + 37 400) : (36 800 + 12 200 + 5 000) **(1)** = 1.09 : 1 **(1)**

Quick ratio

(100 + 37 400) : (36 800 + 12 200 + 5 000) **(1)** = 0.69 : 1 **(1)**

(b) Increase in selling price
Reduction in trade discount allowed to customers
Selling at a higher mark-up
Decrease in cost price
Increase in trade discount allowed by suppliers
Taking advantage of bulk buying
Or other suitable reason based on answer to (a)
Any 2 reasons (1) each **[2]**

(c) Year ended 31 March 2013 **(1)**
In 2013 the expenses were 17.85% of revenue: in 2014 the expenses were 23.33% of revenue. **(2)**
Or suitable answer based on answers to (a) **[3]**

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(d)

	Increase	Decrease	No effect
Cheque paid to credit supplier			✓ **(1)**
Goods taken for own use		✓ **(1)**	
Purchase of non-current asset on credit		✓ **(1)**	

[3]

(e) Unsatisfied **(1)**
The ratio of liquid assets to current liabilities has fallen from 0.90:1 to 0.69:1. **(1)**
She cannot pay immediate liabilities from liquid assets. **(1)**
Or suitable answer based on answer to (a) **[3]**

[Total: 19]

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