Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

9118752777

ACCOUNTING **0452/23**

Paper 2 **May/June 2014**

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.

IB14 06_0452_23/RP
© UCLES 2014

1 The financial year of Nasir Manufacturing Limited ends on 31 January.

The following information is available.

		$
At 1 February 2013		
Plant and machinery at cost		94 000
Office fixtures and equipment at cost		34 000
Loose tools at valuation		2 650
Provision for depreciation of plant and machinery		33 840
Provision for depreciation of office fixtures and equipment		12 240
Inventories:	Raw materials	23 500
	Work in progress	11 020
	Finished goods	18 100
For the year ended 31 January 2014		
Revenue		539 000
Purchases:	Raw materials	124 600
	Finished goods	16 900
Purchases returns:	Finished goods	200
Wages and salaries:	Factory workers	136 000
	Factory supervisors	31 400
	Administrative and sales staff	61 500
Expenses:	Direct expenses	16 300
	General factory expenses	19 208
	General office expenses	8 900
Rates and insurance		6 360

Additional information

1 On 31 January 2014

Inventories:	Raw materials	26 100
	Work in progress	12 060
	Finished goods	19 300
Direct wages accrued		2 200
Sales staff wages accrued		380
Rates prepaid		120

2 The rates and insurance are to be apportioned ¾ to the factory and ¼ to the office.

3 The plant and machinery and office fixtures and equipment are being depreciated at 20% per annum using the reducing (diminishing) balance method.

4 During the year ended 31 January 2014 loose tools costing $310 were purchased. On 31 January 2014 loose tools were valued at $2740.

© UCLES 2014

REQUIRED

(a) Prepare the manufacturing account of Nasir Manufacturing Limited for the year ended 31 January 2014.

Nasir Manufacturing Limited
Manufacturing Account for the year ended 31 January 2014

[14]

(b) Prepare the trading account section of the income statement of Nasir Manufacturing Limited to show the gross profit for the year ended 31 January 2014.

Nasir Manufacturing Limited
Income Statement for the year ended 31 January 2014.

[6]

[Total: 20]

2 Leroy Smith is a trader. His financial year ends on 31 March.

He provided the following information about stationery for the year ended 31 March 2014.

2013			$
April	1	Inventory of stationery	144
June	30	Purchased stationery and paid by cheque	368
Aug	1	Took stationery for personal use	26
2014			
Mar	31	Inventory of stationery	92

REQUIRED

(a) Write up the stationery account as it would appear in Leroy Smith's ledger for the year ended 31 March 2014. Balance the account and bring down the balance on 1 April 2014.

Leroy Smith
Stationery account

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

[6]

(b) Explain how the business entity principle has been applied in the preparation of the stationery account.

.....

.....

.....

..... [2]

Leroy Smith maintains one combined account for rent and rates. He provided the following information for the year ended 31 March 2014.

On 1 April 2013 two months' rates, totalling $380, were prepaid and one month's rent, $260, was accrued.

During the year ended 31 March 2014 the following payments were made by cheque:

	$
Rates 13 months to 30 June 2014	2470
Rent 13 months to 31 March 2014	3380

REQUIRED

(c) Write up the rent and rates account as it would appear in Leroy Smith's ledger for the year ended 31 March 2014. Balance the account and bring down the balance on 1 April 2014.

Leroy Smith
Rent and rates account

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

[6]

(d) Explain how the accruals (matching) principle has been applied in the preparation of the rent and rates account.

.....

.....

.....

..... [2]

(e) Define the following terms.

Capital receipts .....

.....

Capital expenditure .....

.....

Revenue receipts .....

.....

Revenue expenditure .....

..... [4]

(f) On 31 March 2014 Leroy Smith discovered that an item of revenue expenditure had been recorded as capital expenditure.

Complete the following table by putting ticks (✓) in the correct columns to indicate the effect of this error on the non-current assets and the profit for the year.

non-current assets at 31 March 2014		profit for the year ended 31 March 2014	
Overstated	Understated	Overstated	Understated

[2]

[Total: 22]

3 (a) (i) Describe the straight line method of depreciation.

.....

.....

..... [1]

(ii) State the circumstances when this method of depreciation may be used.

.....

..... [1]

(b) (i) Describe the reducing (diminishing) balance method of depreciation.

.....

.....

..... [1]

(ii) State the circumstances when this method of depreciation may be used.

.....

..... [1]

(c) State which of the above methods of depreciation would be most appropriate to use for **each** of the following non-current assets.

1 Computer equipment .....

2 Buildings .....

3 Motor vehicle ..... [3]

(d) (i) Describe the revaluation method of depreciation.

.....

.....

..... [1]

© UCLES 2014

(ii) State the circumstances when this method of depreciation may be used.

.....

..... [1]

(iii) Suggest **one** non-current asset which may be depreciated using this method.

..... [1]

Tony Yeo is in business. His financial year ends on 30 April. He depreciates his non-current assets each year.

On 1 May 2013 the balances in Tony Yeo's ledger included the following:

	$
Equipment at cost	8600
Provision for depreciation of equipment	3260

The equipment is being depreciated at 20% per annum using the straight line method, calculated from the date of purchase. No depreciation is to be charged in the year of disposal.

On 31 October 2013 equipment which had cost $2000 on 1 May 2011 was sold for $750 cash.

On 1 November 2013 equipment costing $3400 was purchased on credit from New2You.

REQUIRED

(e) Write up the following accounts in the ledger of Tony Yeo for the year ended 30 April 2014. Balance the accounts where necessary and bring the balances down on 1 May 2014.

Tony Yeo
Equipment account

.....

.....

.....

.....

.....

.....

.....

..... [3]

Provision for depreciation of equipment account

.....

.....

.....

.....

.....

.....

.....

..... [5]

Disposal of equipment account

.....

.....

.....

.....

.....

..... [4]

[Total: 22]

4 The financial year of LWS Limited ends on 30 April.

The following information was available on 30 April 2014.

Paid-up share capital	140 000 ordinary shares of $0.50 each
	50 000 6% preference shares of $1 each
Loan capital	30 000 5% debentures of $1 each

On 1 May 2013 the retained profits amounted to $7500.

On 1 November 2013 debenture interest for the period 1 May to 31 October 2013 was paid.

On 29 April 2014 the annual preference share dividend was paid.

On 30 April 2014 debenture interest for the period 1 November 2013 to 30 April 2014 was accrued.

On 30 April 2014 the directors recommended a transfer of $4000 to a general reserve and a payment of an ordinary share dividend of 8%.

The profit for the year ended 30 April 2014 **before** interest amounted to $18 600.

REQUIRED

(a) Calculate the following.

Total debenture interest for the year (in $)

.....

.....

Preference share dividend paid (in $)

.....

.....

Ordinary share dividend to be paid (in $)

.....

..... [3]

(b) State why the company made a transfer to general reserve.

.....

..... [1]

(c) Calculate the profit retained in the year.

.....

.....

.....

.....

.....

.....

..... [5]

(d) Prepare the capital and reserves section of the statement of financial position of LWS Limited at 30 April 2014.

LWS Limited
Extract from Statement of Financial Position at 30 April 2014

Capital and reserves

.....

.....

.....

.....

..... [4]

(e) Name the section of the statement of financial position of LWS Limited at 30 April 2014 in which debentures would appear.

..... [1]

(f) **(i)** Name the section of the statement of financial position of LWS Limited at 30 April 2014 in which debenture interest would appear.

..... [1]

(ii) State the amount of debenture interest which would appear in the statement of financial position of LWS Limited at 30 April 2014.

..... [1]

[Total: 16]

© UCLES 2014

Question 5 is on the next page.

5 Uzma Khan runs a dress-making business. She maintains a full set of accounting records. Her financial year ends on 28 February.

On 28 February 2014 she opened a suspense account and entered a credit balance of $2027.

REQUIRED

(a) State **two** reasons why it was necessary for Uzma Khan to open a suspense account.

1 .....

.....

2 .....

..... [2]

Uzma Khan discovered the following **errors** had been made in her accounting records.

1 Rent of premises, $250, had been debited to the rent account as $520.

2 $400 withdrawn from the bank for personal use had been debited to the wages account.

3 The total of the discount allowed column in the main cash book, $43, had not been transferred to the discount allowed account in the ledger.

4 $2000 received from Amina had been credited to the account of Mona as $200.

© UCLES 2014

REQUIRED

(b) Prepare the entries in Uzma Khan's journal to correct the four errors on **page 14**. Narratives **are** required.

Uzma Khan
Journal

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

[13]

© UCLES 2014

[Turn over

(c) Complete the table below to show what effect **each** of the four errors on **page 14** had on Uzma Khan's profit for the year ended 28 February 2014.

The first one has been completed as an example.

Error	Effect on profit for the year		
	Overstated $	Understated $	No effect
1		*270*	
2			
3			
4			

[6]

[Total: 21]

Question 6 is on the next page.

6 Maria Khumalo is a trader. Her financial year ends on 31 March.

She provided the following summary of her assets and liabilities on 31 March 2014.

	$	$
Capital	145 000	
Profit for the year	35 000	180 000
Trade payables		36 800
Bank overdraft		12 200
Short term loan		5 000
		234 000
Non-current assets		175 000
Inventory		21 500
Petty cash		100
Trade receivables		37 400
		234 000

For the year ended 31 March 2014:

	$
Revenue	450 000
Cost of sales	310 000
Expenses	105 000

Maria Khumalo wishes to compare the performance of her business for the year ended 31 March 2014 with that of the previous financial year.

REQUIRED

(a) Complete the table below to show the ratios for Maria Khumalo's business for the year ended 31 March 2014.

Calculations should be correct to **two** decimal places.

You may use the space on the following page for your workings.

Ratio	Year ended 31 March	
	2013	2014
percentage of gross profit to revenue (sales)	28.10%	..... %
percentage of profit for the year to revenue (sales)	10.25%	..... %
current ratio	1.95 : 1	.....
quick ratio	0.90 : 1	.....

[8]

Workings

(b) Suggest **two** reasons for the change in the percentage of gross profit to revenue (sales).

1 .....

.....

2 .....

..... [2]

(c) State the year in which Maria Khumalo had better control over her expenses.
Give a reason for your answer.

Year ended 31 March .....

Reason .....

.....

..... [3]

Question 6(d) and (e) are on the next page.

(d) Complete the following table by placing a tick (✓) in the correct column to show how **each** of the following transactions would affect the current ratio.

The first one has been completed as an example.

	Increase	Decrease	No effect
Receipt of long term loan	✓		
Cheque paid to credit supplier			
Goods taken for own use			
Purchase of non-current asset on credit			

[3]

(e) State whether Maria Khumalo would be satisfied with the change in her liquidity position. Give a reason for your answer.

Satisfied? .....

Reason .....

.....

.....

..... [3]

[Total: 19]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.