Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

9549287478

ACCOUNTING **0452/21**

Paper 2 **May/June 2018**

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.

DC (RW) 144910/4
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1 Lydia is a trader. She keeps a full set of accounting records and prepares control accounts at the end of each month.

REQUIRED

(a) Name the book of prime (original) entry which Lydia would use to obtain the following information when preparing her control accounts.

	Book of prime (original) entry
Returns by credit customers	
Bad debts written off	

[2]

Lydia was able to provide the following information for the month ended 30 April 2018.

2018		$
April 1	Amount owing by credit customers	3944
	Amount owing to credit suppliers	4215
April 30	Totals for the month	
	Cash purchases	996
	Credit purchases	4855
	Returns to credit suppliers	113
	Returns from credit customers	236
	Cheques received from credit customers	3332
	Discount allowed	68
	Discount received	95
	Contra entry	250
	Carriage charged by credit supplier	210
May 1	Debit balance in purchases ledger	100
	Credit balance in purchases ledger	4237

REQUIRED

(b) Select the relevant figures and prepare the purchases ledger control account for the month of April 2018.
Insert a figure for cheques paid to credit suppliers.
Balance the account and bring down the balances on 1 May 2018.

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Lydia
Purchases ledger control account

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

[9]

(c) Suggest **two** reasons for the debit balance in the purchases ledger on 1 May 2018.

1 .....

.....

2 .....

.....[2]

Lydia is proposing to create and maintain a provision for doubtful debts at 2½% of trade receivables at the end of each financial year.

REQUIRED

(d) Explain how maintaining a provision for doubtful debts is an example of the application of the principle of prudence.

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.....

.....

.....[2]

Lydia allows her credit customers a cash discount of 2% if accounts are settled within 30 days. From 1 June 2018 Lydia is proposing to offer a cash discount of 3% if accounts are settled within 21 days.

REQUIRED

(e) Discuss how this proposal could affect Lydia's:

(i) future liquidity

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.....[2]

(ii) future profit for the year.

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.....[2]

[Total: 19]

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2 On 1 March 2017 Nabil started a business buying and selling office supplies on credit.

Nabil opened a business bank account on 1 March 2017 with capital, $155 000 and a loan from AB Loans, $80 000. On the same day he purchased premises, $200 000, fixtures and fittings, $22 000, and inventory, $5500, paying by cheque.

REQUIRED

(a) Prepare a journal entry to include all the above information to open the books of the business on 1 March 2017.
A narrative **is** required.

Nabil
Journal

Date 2017	Details	Debit $	Credit $
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....

[5]

(b) Name **two** uses of the general journal, apart from opening entries.

1 .....

2 .....[2]

Despite having little knowledge of book-keeping, Nabil decided to prepare a trial balance at the end of his financial year on 28 February 2018.

The trial balance he prepared, which contains errors, was as follows.

	Debit	Credit
	$	$
Revenue		119 100
Purchases	72 000	
Capital		155 000
Loan – AB Loans		80 000
Premises	200 000	
Fixtures and fittings	22 000	
Trade receivables	7 600	
Trade payables		6 850
Bank overdraft	3 950	
Wages	32 300	
General expenses	25 400	
Inventory 1 March 2017	5 500	
28 February 2018	6 100	
Difference on trial balance		13 900
	374 850	374 850

The following errors were later discovered.

1 Nabil's cash drawings, $10 000, had been posted to the wages account.

2 No entry had been made for purchases returns, $150.

3 $140 owed by a credit customer should have been written off as a bad debt.

4 No entry had been made for bank charges, $210.

5 The balance of the petty cash book, $100, had been omitted from the trial balance.

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REQUIRED

(c) Prepare a **corrected** trial balance at 28 February 2018.

Nabil
Corrected Trial Balance at 28 February 2018

	Debit $	Credit $
Revenue	.....	.....
Purchases	.....	.....
Capital	.....	.....
Loan – AB Loans	.....	.....
Premises	.....	.....
Fixtures and fittings	.....	.....
Trade receivables	.....	.....
Trade payables	.....	.....
Bank overdraft	.....	.....
Wages	.....	.....
General expenses	.....	.....
Inventory	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[13]

[Total: 20]

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[Turn over

3 Masuma owns a furniture store. She maintains a full set of accounting records. Her financial year ends on 31 March.

Masuma provided the following information at 31 March 2018.

1 On 1 April 2017 Amina, a credit customer, owed $160. On 1 March 2018 she paid 75% of this and the balance was written off as a bad debt.

2 On 4 January 2018 additional fixtures and fittings, $2000, were purchased on credit from Office Traders, but this transaction was not recorded.

3 The fixtures and fittings are depreciated at the rate of 20% per annum on the cost of equipment held at the end of each financial year.

4 On 31 March 2018 the discount columns in the cash book showed the following totals for the month:
discount column on debit side $55
discount column on credit side $68
These totals had not been transferred to the discount accounts in the ledger.

REQUIRED

(a) Record this information in the following accounts in Masuma's ledger at 31 March 2018.

Some entries have already been made in the accounts during the year.

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

Masuma
Amina account

Date	Details	$	Date	Details	$
2017					
April 1	*Balance b/d*	*160*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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Bad debts account

Date	Details	$	Date	Details	$
2018					
Feb 28	*Total written off*	*135*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Fixtures and fittings account

Date	Details	$	Date	Details	$
2017					
April 1	*Balance b/d*	*4000*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Provision for depreciation of fixtures and fittings account

Date	Details	$	Date	Details	$
			2017		
.....	.....	.....	*April 1*	*Balance b/d*	*1600*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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[Turn over

Discount allowed account

Date	Details	$	Date	Details	$
2018					
Feb 28	*Total to date*	*3590*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Discount received account

Date	Details	$	Date	Details	$
			2018		
.....	.....	.....	*Feb 28*	*Total to date*	*4130*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[12]

The following account appeared in Masuma's ledger on 31 March 2018.

Disposal of motor vehicle account

Date	Details	$	Date	Details	$
2018			2018		
Feb 1	Motor vehicles	9500	Feb 1	Provision for depreciation of motor vehicles	4636
				M6Vans	3500
			Mar 31	Income statement	1364
		9500			9500

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REQUIRED

(b) Explain **each** entry in the disposal of motor vehicle account.
Name the account in which the double entry would be made for **each** item.
State whether that account would be debited or credited.

February 1 Motor vehicles

Explanation .....

.....

.....

Double entry .....

February 1 Provision for depreciation of motor vehicles

Explanation .....

.....

.....

Double entry .....

February 1 M6Vans

Explanation .....

.....

.....

Double entry .....

March 31 Income statement

Explanation .....

.....

.....

Double entry .....[8]

[Total: 20]

4 Asim has an advertising agency. His financial year ends on 31 January.

He provided the following information on 31 January 2018.

	$
Capital at 1 February 2017	120 000
Drawings	8 500
Office equipment at valuation at 1 February 2017	6 180
Motor vehicle at cost	15 000
Provision for depreciation of motor vehicle	5 400
Fees received from clients	28 350
Wages of assistant	19 000
General expenses	1 358
Motor expenses	970
Rates and insurance	2 280
Rent received from tenant	5 600

Additional information

1 At 31 January 2018
$2400 was outstanding from clients for fees.
Motor expenses outstanding amounted to $110.
A provision for doubtful debts of 2% of the amount owed by clients should be created.

2 The rates and insurance paid were for a period of 15 months from 1 February 2017.

3 Part of the premises were let to a tenant on 1 February 2017 at an annual rent of $4800.

4 One quarter of the motor expenses are for Asim's personal use of the motor vehicle.

5 The motor vehicle is to be depreciated at 20% per annum using the reducing (diminishing) balance method.

6 The office equipment was valued at $5500 on 31 January 2018.
No office equipment was purchased or sold during the year.

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REQUIRED

(a) Prepare Asim's income statement for the year ended 31 January 2018.

Asim
Income Statement for the year ended 31 January 2018

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

[13]

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[Turn over

(b) State the formula for the calculation of the return on capital employed (ROCE).

.....

.....[1]

(c) Calculate Asim's return on capital employed (ROCE) using his capital at 1 February 2017. The calculation should be correct to **two** decimal places.

.....

.....

.....

.....[2]

(d) Suggest **two** reasons why Asim's return on capital employed (ROCE) is higher than that of Naqid who has a similar business.

1 .....

.....

2 .....

.....[2]

(e) Explain why Asim should consider non-financial factors when comparing his financial statements with those of Naqid.

.....

.....

.....

.....[2]

[Total: 20]

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5 Ravi is a wholesaler. His financial year ends on 31 March. He provided the following information for the year ended 31 March 2018.

	$
Revenue	
cash sales	8750
credit sales	34450
Purchases returns	950
Inventory at 1 April 2017	2900
Mark-up	20%

Inventory at 31 March 2018 was 50% greater than that at 1 April 2017.

REQUIRED

(a) Prepare the income statement (trading account section) for the year ended 31 March 2018 to calculate the purchases for the year.

Ravi
Income Statement (Trading Account section) for the year ended
31 March 2018

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.....[8]

(b) State the formula for the calculation of the rate of inventory turnover (in times).

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.....[1]

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(c) Suggest **two** reasons why Ravi's rate of inventory turnover is lower than the average for this type of business.

1 .....

.....

2 .....

.....[2]

(d) State the basis on which Ravi should value his inventory.

.....[1]

(e) Name the accounting principle which Ravi is applying by valuing his inventory on this basis.

.....[1]

(f) Complete the table by placing a tick (✓) in the correct column to indicate the effect of Ravi overvaluing his inventory at 31 March 2018.

The first one has been completed as an example.

	Overstated	Understated
current assets at 31 March 2018	✓	
cost of sales for the year ended 31 March 2018		
gross profit for the year ended 31 March 2018		
cost of sales for the year ending 31 March 2019		
profit for the year ending 31 March 2019		

[4]

Ravi is considering ways to increase his gross profit.

REQUIRED

(g) Complete the table by placing a tick (✓) in the correct column to indicate how **each** of the following proposals would affect Ravi's gross profit.

	Increase	Decrease	No effect
Reduce the rate of trade discount allowed to credit customers			
Reduce the rate of cash discount allowed to credit customers			

[2]

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(h) Comment on the possible effects of Ravi's proposal to increase the mark-up from 20% to 25%.

.....

.....

.....

.....

.....[2]

[Total: 21]

6 The financial year of CD Limited ends on 30 April. The following information was provided on 30 April 2018.

	$		$
Non-current assets (book value)	227 000	Ordinary share capital	
Inventory	29 000	(300 000 shares of $0.50)	150 000
Trade receivables	22 000	General reserve 1 May 2017	30 000
Bank	11 000	Retained earnings 1 May 2017	6 000
		Profit for the year ended 30 April 2018	13 000
		5% Debentures (repayable 2025)	50 000
		Trade and other payables	40 000

REQUIRED

(a) State **two** differences between debentures and ordinary shares.

1 .....

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.....

2 .....

.....

.....[4]

(b) State how the general reserve has arisen.

.....

.....

.....[1]

(c) State **two** reasons why CD Limited retains some profit each year.

1 .....

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2 .....

.....[2]

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(d) Complete the table by placing tick(s) (✓) in the correct column(s) to indicate where **each** of the following would be included in the financial statements of CD Limited at 30 April 2018.

Some items may appear in more than one statement.

The first one has been completed as an example.

	Income statement	Statement of changes in equity	Statement of financial position	No entry
1 September 2017 Repayment of long-term loan				✓
1 November 2017 Payment of half-year interest on debentures				
31 December 2017 Payment of interim ordinary share dividend				
30 April 2018 Half-year interest on debentures accrued				
30 April 2018 Proposed ordinary share dividend				

[5]

CD Limited requires an additional $30 000 to pay for an expansion programme.

(e) State **one** advantage to ordinary shareholders if CD Limited raises the money by issuing debentures.

.....

.....[1]

(f) State **one** disadvantage to ordinary shareholders if CD Limited raises the money by issuing debentures.

.....

.....[1]

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[Turn over

The current ratio of CD Limited on 30 April 2018 was 1.55 : 1.

The company is anxious to increase this ratio and several proposals are being considered.

REQUIRED

(g) State the formula for the calculation of the current ratio.

.....[1]

(h) Complete the table by placing a tick (✓) in the correct column to indicate the effect on the current ratio of **each** proposal.

The first one has been completed as an example.

	Increase	Decrease	No effect
Sell surplus non-current assets for cash	✓		
Sell goods on cash terms only			
Obtain a further long-term loan			
Buy additional non-current assets on credit rather than paying immediately			
Persuade trade receivables to pay half of their debts immediately in return for 3% cash discount			
Pay trade payables after 2 months instead of after 1 month			

[5]

[Total: 20]

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