**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**International General Certificate of Secondary Education**

# MARK SCHEME for the October/November 2010 question paper for the guidance of teachers

## 0452 ACCOUNTING

**0452/21** Paper 2, maximum raw mark 120

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UNIVERSITY of CAMBRIDGE
International Examinations

**1**

Robbie McDonald
Income Statement (Trading and Profit and Loss Account) for the year ended 30 September 2010

| | $ | | $ | | $ | |
|---|---|---|---|---|---|---|
| Revenue (sales) | | | | | 216 000 | **(1)** |
| Less Cost of sales | | | | | | |
| Opening inventory (stock) | | | 19 500 | **(1)** | | |
| Purchases | 176 000 | **(1)** | | | | |
| Less Goods for own use | 1 900 | **(1)** | 174 100 | | | |
| | | | 193 600 | | | |
| Less Closing inventory (stock) | | | 20 800 | **(2)C/F** | | |
| | | | | **(1)O/F** | | |
| | | | | | 172 800 | **(1)O/F** |
| Gross profit | | | | | 43 200 | **(2)** |
| Bad debts recovered | | | | | 160 | **(1)** |
| Decrease in provision for doubtful debts (372 – 352) | | | | | 20 | **(2)** |
| | | | | | 43 380 | |
| Less Wages | | | 28 200 | **(1)** | | |
| Property tax and insurance (8900 **(1)** – 600 **(1)**) | | | 8 300 | | | |
| Administration expenses | | | 4 410 | **(1)** | | |
| Bank interest | | | 1 550 | **(1)** | | |
| Depreciation Motor vehicles (20% × 4800) | | | 960 | **(1)** | | |
| Equipment (3000 – 2340) | | | 660 | **(1)** | 44 080 | |
| Loss for the year (Net loss) | | | | | 700 | **(1)O/F** |

**Horizontal format acceptable** **[20]**

**[Total: 20]**

**2** **(a)** Assist in the location of errors
Provide instant totals of trade receivables (debtors) and trade payables (creditors)
Proves the arithmetical accuracy of the sales/purchases ledgers
Enable a balance sheet to be prepared quickly
Provide a summary of the transactions relating to trade receivables (debtors) and trade payables (creditors)
Provide an internal check on sales/purchases ledgers – may reduce fraud

**Or other relevant points**

**Any 2 points (1) each** **[2]**

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**(b)**

Suzie Chow

Sales ledger control account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 2010 | | | | 2010 | | | |
| Sept 1 | Balance | 21 976 | **(1)** | Sept 1 | Balance | 54 | **(1)** |
| 30 | Sales | 22 800 | **(1)** | 30 | Bank | 21 860 | **(1)** |
| | Bank (Dis. Chq) | 610 | **(1)** | | Discount allowed | 488 | **(1)** |
| | | | | | Sales returns | 391 | **(1)** |
| | | | | | Bad debts | 100 | **(1)** |
| | | | | | Contra entry | 78 | **(1)** |
| | | | | | Balance c/d | 22 415 | **(1)** |
| | | 45 386 | | | | 45 386 | |
| 2010 | | | | | | | |
| Oct 1 | Balance b/d | 22 415 | **(1)O/F** | | | | |

**[11]**

**Alternative presentation**

Sales ledger control account

| | | Debit | | Credit | | Balance | |
|---|---|---|---|---|---|---|---|
| 2010 | | $ | | $ | | $ | |
| Sept 1 | Balances | 21 976 | **(1)** | 54 | **(1)** | 21 922 | Dr |
| 30 | Sales | 22 800 | **(1)** | | | 44 722 | Dr |
| | Bank (Dis. Chq.) | 610 | **(1)** | | | 45 332 | Dr |
| | Bank | | | 21 860 | **(1)** | 23 472 | Dr |
| | Discount allowed | | | 488 | **(1)** | 22 984 | Dr |
| | Sales returns | | | 391 | **(1)** | 22 593 | Dr |
| | Bad debts | | | 100 | **(1)** | 22 493 | Dr |
| | Contra entry | | | 78 | **(1)** | 22 415 | Dr |
| | | | | | | **(2) C/F** | |
| | | | | | | **(1) O/F** | |

**[11]**

**(c)** A contra entry is when an account in the sales ledger is set against an account in the purchases ledger. **(1)** Such an entry is made when a supplier is also a customer of the business and has an account in both ledgers. **(1)** **[2]**

**(d)** The sales ledger control account acts as a check on the sales ledger. If there is an error in the sales ledger it will not be revealed by a control account prepared from the individual accounts in that ledger. **[2]**

**(e)** $\frac{22\,415}{275\,000}$ **O/F}** **} (1)** $\times \frac{365}{1} = 29.75 \text{ days} = 30 \text{ days}$ **(1)O/F** **[2]**

**(f)** Offer cash discount for early payment
Charge interest on overdue accounts
Improve credit control
Refuse further supplies on credit until any outstanding balance is paid
Invoice discounting and debt factoring

**Or other relevant points**
**Any 3 points (1) each** **[3]**

**[Total: 22]**

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**3 (a) (i)** Nominal (general) ledger **(1)**

**(ii)** Purchases ledger **(1)**

**(iii)** Nominal (general) ledger **(1)** **[3]**

**(b)**

Karnail Singh
Rent account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 2010 | | | | 2009 | | | |
| July 31 | Total paid | 1430 | **(1)** | Aug 1 | Balance b/d | 260 | **(1)** |
| | Balance c/d | 420 | **(1)** | 2010 | | | |
| | | | | July 31 | Income Statement **(1)** (Profit & Loss) | 1590 | **(1)** |
| | | 1850 | | | | 1850 | |
| | | | | 2010 | | | |
| | | | | Aug 1 | Balance b/d | 420 | **(1)O/F** |

**[6]**

**Alternative presentation**

Karnail Singh
Rent account

| | | Debit | | Credit | | Balance | |
|---|---|---|---|---|---|---|---|
| 2009 | | $ | | $ | | $ | |
| Aug 1 | Balance | | | 260 | **(1)** | 260 | Cr |
| 2010 | | | | | | | |
| July 31 | Total paid | 1430 | **(1)** | | | 1170 | Dr |
| July 31 | Income statement **(1)** (Profit & Loss) | | | 1590 | **(1)** | 420 | Cr |
| | | | | | | **(2)C/F** | |
| | | | | | | **(1)O/F** | |

**[6]**

**(c)** The accruals (matching) principle states that revenue of the accounting period must be matched against the costs of the same period. **(1)**
The rent relating to the financial year ended 31 July 2010 is transferred to the income statement (profit and loss account). **(1)** The rent paid during the year relating to the previous year is not included but the rent owing at the end of the year is included. **(1)** **[3]**

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**(d)** Bank manager
Assessment of prospects of any requested loan/overdraft being repaid when due
Assessment of prospects of any interest on loan/overdraft being paid when due
Assessment of the security available to cover any loan/overdraft

Lenders
Assessment of prospects of any requested loan being repaid when due
Assessment of prospects of any interest on loan being paid when due
Assessment of the security available to cover any loan

Creditor for goods
Assessment of the liquidity position
Identifying how long the business takes to pay creditors
Identifying future prospects of the business
Identifying what credit limit is reasonable

Manager (if any)
Assessment of past performance
Basis of future planning
Control the activities of the business
Identifying areas where corrective action is required

**Or other suitable interested persons e.g. employees, government bodies, competitors, take-over bidders etc**

**TWO business people to be identified (1) each**

**ONE acceptable reason required in each case (1) each [4]**

**(e) (i)** Non-financial aspects
Accounts only record information which can be expressed in monetary terms. **(1)**
This means that there are many important factors which influence the performance of a business which will not appear in the financial statements (final accounts) e.g. quality of management, goodwill, skill of workforce etc. **(1)**

**(ii)** Historical cost
Transactions are always recorded at the actual cost. **(1)**
This means that it can be difficult to compare transactions which have taken place at different times because of the effect of inflation. **(1)** **[4]**

**[Total: 20]**

**4 (a)** Authorised share capital is the maximum amount of share capital a company is allowed to issue. **(2)**

Paid-up share capital is the total amount of capital a company has received from its shareholders. **(2)** **[4]**

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**(b) (i)** 4% × 25 000 shares of $1 each **(1)** = $1000 **(1)**

**(ii)** 3% × $15 000 **(1)** = $450 **(1)**

**(iii)** 5% × 60 000 shares of $0.50 **(1)** = $1500 **(1)** **[6]**

**(c)**

| | Income Statement Profit & Loss Account | Appropriation Account | Balance Sheet | |
|---|---|---|---|---|
| Debenture interest payable | ✓ | No entry | ✓ | **(2)** |
| Ordinary share dividend payable | No entry | ✓ | ✓ | **(2)** |

**[4]**

**(d)**

| | $ |
|---|---|
| Ordinary share capital | 30 000 |
| Preference share capital | 25 000 |
| Debentures | 15 000 |
| | 70 000 **(1)** |

**[1]**

**(e)** $\frac{11840}{70\,000}$ **(O/F)** $\times \frac{100}{1}$ **(1)** $= 16.91\%$ **(1)O/F** **[2]**

**(f)** If the return on capital employed increases it indicates that the company is employing its resources more efficiently. **(2)** **[2]**

**[Total: 19]**

**5 (a)** To compensate for the fact that she does more work than Samuel.
**Or**
To recognise the work that she does in the partnership. **[2]**

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**(b)**

Samuel and Martha Mavuso
Balance Sheet at 31 October 2010

| | | | | | |
|---|---|---|---|---|---|
| | | $ | $ | $ | |
| Non-current (fixed) assets at cost | | | | 105 950 | |
| Less Provision for depreciation | | | | 9 350 | |
| | | | | 96 600 | **(1)** |
| Current assets | | | 23 562 | | |
| Less Current liabilities | | | 18 400 | | |
| Working capital (net current assets) | | | | 5 162 | **(1)** |
| | | | | 101 762 | |
| Financed by | | | | | |
| | | Samuel Mavuso | Martha Mavuso | Total | |
| Capital accounts | | 60 000 | 40 000 | 100 000 | **(1)** |
| Current accounts | | | | | |
| Opening balance | | (1 091) | 223 | | **(1)** |
| Interest on capital | | 2 400 | 1 600 | | **(1)** |
| Share of profit | | 4 122 | 2 748 | | **(1)** |
| | | 5 431 | 4 571 | | |
| Less Drawings | | 3 100 | 4 900 | | **(1)** |
| Interest on drawings | | 93 | 147 | | **(1)** |
| | | 3 193 | 5 047 | | |
| | | 2 238 | (476) | | **(1)O/Fs** |
| | | | | 1 762 | |
| | | | | 101 762 | **(1)O/F** |

**Horizontal format acceptable**

**Calculation of current account balances outside balance sheet acceptable if presented in the form of ledger accounts** **[10]**

**(c)** 23 562 : 18 400 **(1)** = 1.28 : 1 **(1)** **[2]**

**(d)** Injection of capital
Long term loan
Sale of surplus non-current (fixed) assets
Reduction in drawings

**Or other suitable points**

**Any 2 points (1) each** **[2]**

**(e)** Does not include inventory (stock) in the calculation. **(1)**
**Either**
Inventory (stock) is not regarded as a liquid asset – a buyer has to be found and then the money collected. Some goods may prove to be unsaleable. **(1)**
**Or**
The quick ratio shows whether the business would have any surplus liquid funds if all the current liabilities were paid immediately from the liquid assets. **(1)** **[2]**

**[Total: 18]**

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**6 (a)** Gross profit = 247 600 – 163 100 = 84 500 **(1)**

$$\frac{84\,500}{247\,000} \times \frac{100}{1} = 34.13\%$$ **(1)** **[2]**

**(b)** Increase in selling prices
Obtaining cheaper supplies
Reduction the rate of trade discount allowed to customers
Increase in the rate of trade discount received from suppliers
Passing on increased costs to customers
Different product mix

**Or other suitable reasons**

**Any 2 points (2) each** **[4]**

**(c)**

Waseem Shah
Suspense account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 2010 | | | | 2010 | | | |
| July 31 | Bank | 1520 | **(1)** | July 31 | Difference on trial balance | 1240 | **(1)** |
| | | | | | Rent | 90 | **(1)** |
| | | | | | Balance c/d | 190 | **(1)** |
| | | 1520 | | | | 1520 | |
| 2010 | | | | | | | |
| Aug 1 | Balance b/d | 190 | **(1)O/F** | | | | |

**[5]**

**Alternative presentation**

Waseem Shah
Suspense account

| 2010 | | Debit $ | | Credit $ | | Balance $ | |
|---|---|---|---|---|---|---|---|
| July 31 | Difference on trial balance | | | 1240 | **(1)** | 1240 | Cr |
| | Rent | | | 90 | **(1)** | 1330 | Cr |
| | Bank | 1520 | **(1)** | | | 190 | Dr |
| | | | | | | **(2)C/F** | |
| | | | | | | **(1)O/F** | |

**[5]**

**(d) Either**
Error Number 2 **(1)**
Explanation This is an error of commission **(1)** and does not affect the balancing of the trial balance **(1)**

**Or**
Error Number 3 **(1)**
Explanation This is an error of principle **(1)** and does not affect the balancing of the trial balance **(1)** **[3]**

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**(e)** Waseem Shah
Statement of corrected profit for the year ended 31 July 2010

| | Increase in profit $ | Decrease in profit $ | $ |
|---|---|---|---|
| Profit for the year (net profit) before corrections | | | 33 000 |
| Error 1 | | 90 | |
| 2 | No effect **(2)** | | |
| 3 | | 1 150 **(2)** | |
| 4 | No effect **(2)** | | |
| | | 1 240 | 1 240 |
| Corrected profit for the year | | | 31 760 **(1)O/F** |

**[7]**

**[Total: 21]**

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