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

0452/22 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 **(1)**	100 000	
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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