CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the October/November 2014 series

0452 ACCOUNTING

0452/21 Paper 2, maximum raw mark 120

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1 (a) Work can be shared amongst several people
Easier for reference as the same types of account are kept together
Easier to introduce checking procedures
Reduces the possibility of fraud
Or other suitable advantage
Any 2 advantages (1) each **[2]**

(b) Any non-current asset, inventory, capital drawings, loan, sales, purchases, returns, expenses, incomes, provisions etc.
Any 1 example (1) **[1]**

(c)

Sahira Ali

Waheed Khan account

				$					$	
2014					2014					
October	16	Returns		168 **(1)**	Oct	1	Balance	b/d	390	
	24	Bank/cash		380 **(1)**		13	Purchases		336	**(1)**
		Discount		10 **(1)**						
	31	Balance	c/d	168						
				726					726	
					2014					
					Nov	1	Balance	b/d	168	**(1)**
										OF

Iqbal Wholesalers account

				$					$	
2014					2014					
Oct	31	Balance	c/d	936	Oct	1	Balance	b/d	650	
						5	Purchases		280	
						31	Interest		6	**(1)**
				936					936	**(1)**
					2014					
					Nov	1	Balance	b/d	936	**(1)**
										OF

+ **(1) dates**
Three column running balance format acceptable

[9]

(d) $\frac{\text{Trade payables}}{\text{Credit purchases}} \times \frac{365}{1}$ **[1]**

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(e) $\frac{3\,100}{21\,200} \times \frac{365}{1}$ **(1) (whole formula)** = 53.37 = 54 days **(1)** **[2]**

(f) May be able to take advantage of cash discounts
Improve the relationship with suppliers
Avoid paying interest
Or other suitable comment
Any 1 advantage (1) **[1]**

(g) The business is deprived of the use of the money earlier than necessary
Or other suitable comment
Any 1 disadvantage (1) **[1]**

(h) To avoid overstating the profit for the year
To avoid overstating the current assets
To apply the principle of prudence
Any 2 comments (1) each **[2]**

(i) The estimated receipts from the sale of the inventory **(1)** less any costs of completing the goods or costs of selling the goods **(1)** **[2]**

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(j)

	Overstated	Understated	No effect
Gross profit for the year ended 31 October 2013	✓ **(1)**		
Gross profit for the year ended 31 October 2014		✓ **(1)**	
Profit for the year ended 31 October 2013	✓ **(1)**		
Profit for the year ended 31 October 2014		✓ **(1)**	
Current assets at 31 October 2013	✓ **(1)**		
Current assets at 31 October 2014			✓ **(1)**

[6]

[Total: 27]

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2 (a)

Mochudi Manufacturing Company
Manufacturing Account for the year ended 31 July 2014

	$	$
Cost of materials used		
Purchases of raw materials	99 500	
Less Returns	1 100	98 400 **(1)**
Closing inventory of raw materials		8 600
		89 800 **(1)**
Direct wages (94 200 + 3100)		97 300 **(1)**
Prime cost		187 100 **(1) OF**
Factory overheads		
Wages of factory supervisors	41 050 **(1)**	
Factory general expenses	19 400 **(1)**	
Factory rates and insurance (¾ × (5000 – 400))	3 450 **(1)**	
Depreciation Machinery (15% × 102 000)	15 300 **(1)**	
Loose tools (4400 – 3300)	1 100 **(1)**	80 300
		267 400 **(1) OF**
Closing work in progress		8 200 **(1)**
Cost of production		259 200 **(1) OF**

Horizontal format acceptable

[12]

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(b)

	$	$
Revenue		400 400
Cost of sales		
Cost of production	259 200 **(1) OF**	
Purchases of finished goods	19 300 **(1)**	
	278 500	
Closing inventory of finished goods	21 100	257 400 **(1) OF**
Gross profit		143 000 **(1)OF**
Less Office staff salaries	33 100 **(1)**	
Sales staff salaries	18 900 **(1)**	
Office general expenses (17 530 – 280)	17 250 **(1)**	
Rates and insurance (¼ × (5000 – 400)	1 150 **(1)**	
Depreciation office fixtures and fittings (12½% × 56 000)	7 000 **(1)**	77 400
Profit for the year		65 600 **(1) OF**

Horizontal format acceptable

[10]

(c)

Error	Effect on profit for the year		
	Increase $	Decrease $	No effect
1		200 **(1)**	
2		810 **(1)**	
3	940 **(1)**		
4		1050 **(1)**	

[4]

[Total: 26]

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3 (a)

Leeford Athletics Club
Subscriptions account

		$			$
2014			2013		
Oct 31	Income & Expenditure	12 000 **(1)**	Nov 1	Balance b/d	1 200 **(1)**
			2014		
			Oct 31	Bank/cash	7 920 **(1)**
				Balance c/d	2 880
		12 000			12 000
2014					
Nov 1	Balance b/d	2 880 **(1) OF**			

+ **(1) dates**

Three column running balance format acceptable

[5]

(b) Current assets **(1) OF**
Answer to be based on closing balance in (a) **[1]**

(c)

Leeford Athletics Club
Subscriptions account

		$			$
2013			2014		
Nov 1	Balance b/d	4 590 **(1)**	Oct 31	Equipment	4 000 **(1)**
2014				General	
Oct 31	Subscriptions	7 920 **(1)**		expenses	9 310 **(1)**
	Sale of equipment	1 500 **(1)**		Loan interest	400 **(1)**
	Open day receipts	770 **(1)**		Rent	4 500 **(1)**
	Balance c/d	3 460		Bank charges	30 **(1)**
		18 240			18 240
			2014		
			Nov 1	Balance b/d	3 460 **(1) OF**

[10]

(d)

Item	$	Reason
Sale of equipment	700 **(1)**	Only the loss **(1)** on the equipment is charged not the capital receipt. **(1)**
Rent of clubhouse	3 600 **(1)**	The accruals (matching) principle is applied.**(1)** Only the expense for the year is charged to the income and expenditure account **(1)**

[6]

[Total: 22]

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4 (a) 1 June 2013 Balance – rates $70
Explanation This represents rates prepaid **(1).** This was paid in the year ended 31 May 2013 but relates to the year ended 31 May 2014. **(1)**
Statement of financial position section Current assets **(1)** **[3]**

1 June 2013 Balance – rent $120
Explanation This represents rent accrued **(1).** This relates to the year ended 31 May 2013 and remained unpaid at the end of the year. **(1)**
Statement of financial position section Current liabilities **(1)** **[3]**

(b) 31 May 2014 Bank $2570
This represents the total amount paid **(1)** by cheque **(1)** for rent and rates during the year ended 31 May 2014. **[2]**

31 May 20134 Income statement $2280
This is the amount transferred to the income statement **(1)** which represents the rent and rates for that financial year **(1)**. **[2]**

(c) Only the rent and rates relating to the current year are transferred to the income statement. **(1)** Adjustments are made for accruals and prepayments **(1)** **[2]**

(d) $\frac{47\,600 - 38\,400}{47\,600} \times \frac{100}{1} = 19.33\%$ **(1)** **[2]**

(e) Selling goods at lower prices
Purchasing goods at higher prices
Changes in the proportions of goods sold
Or other acceptable reason
Any 2 reasons (1) each **[2]**

(f) Assess prospects of any requested loan/overdraft being repaid when due
Assess prospects of any interest on loan/overdraft being paid when due
Assess security available to cover any loan/overdraft
Any 2 reasons (1) each **[2]**

(g) Lender
Investor
Credit supplier
Customer
Owner
Manager (if any)
Employee/trade union
Government body
Competitor
Take-over bidder
Potential partner
Or other suitable interested person
Any 2 persons (1) each **[2]**

[Total: 20]

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5 (a)

Watson Limited
Statement of Financial Position at 30 September 2014

	$ Cost	$ Depreciation to date	$ Net Book value
Non-current Assets			
Premises	99 000		99 000
Fixtures & fittings	65 000	2 300	42 000 **(1)**
Motor behicles	33 000	11 000	22 000 **(1)**
	197 000	34 000	163 000 **(1)**
Current Assets			
Inventory		19 300	
Trade receivables	28 000		
Provision for doubtful debts	1 400	26 600 **(1)**	
Other receivables		300 **}**	
Cash		500 **} (1)**	
		46 700 **(1) OF**	46 700 **(1) OF**
Current Liabilities			
Trade payables	16 300		
Other payables	350 **}**		
Bank	2 050 **} (1)**		
Proposed dividend	2 000 **(1)**	20 700 **(1) OF**	
Net Current Assets			26000
			189 000
Non-current Liabilities			
4% Debentures			10 000
			179 000
Capital and Reserves			
Ordinary share capital			120 000 **(1)**
General reserve (20 000 **(1)** + 12 000 **(1)**)			32 000
Retained profit			27 000 **(1)**
Shareholders' funds			179 000 **(1) OF**

Accept other suitable formats

[15]

(b) Debentures are long-term loans
Debenture holders are not members of the company
Debentures do not carry voting rights
Debentures carry a fixed rate of interest
Debenture interest is not dependent on the company's profit
Debentures are often secured on the assets of the company
Debenture holders are repaid before shareholders in the event of a winding up
Debentures are repaid by a set date

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

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(c) Reduction in profit available for ordinary shareholders
Prior claim on the assets of the company in the event of a winding up

Or other acceptable point

Any 1 point (2) **[2]**

(d) **(i)** The number of times a business sells and replaces its inventory in a given period of time**.** **[1]**

(ii) $\dfrac{\text{Cost of sales}}{\text{Average inventory}}$ **[1]**

(iii) $\dfrac{243\,200 \quad \}}{22\,500 + 19\,300 / 2 \}\ (1)}$ = 11.64 times **(1)** **[2]**

(e) Rate falling over the three years
May indicate reduction in efficiency
May indicate that sales are slowing down
May indicate the inventory is too high
Or other suitable comments
Comment to be based in OF answer to (d)(iii)
Any 2 comments (1) each **[2]**

[Total: 25]

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