Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

6056297472

ACCOUNTING **0452/21**

Paper 2 **October/November 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.

This document consists of **19** printed pages and **1** blank page.

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1 Sahira Ali is a trader. Her ledger is divided into a sales ledger, a purchases ledger and a nominal (general) ledger.

REQUIRED

(a) State **two** advantages of dividing the ledger into these three sections.

1 .....

.....

2 .....

..... [2]

(b) Name **one** account which would appear in the nominal (general) ledger.

..... [1]

On 1 October 2014 Sahira Ali's trade payables included the following.

	$
Waheed Khan	390
Iqbal Wholesalers	650

Sahira Ali's transactions for October 2014 included the following.

October 5 Purchased goods on credit from Iqbal Wholesalers, $280

13 Purchased goods on credit from Waheed Khan, list price $420, less 20% trade discount

16 Returned goods, list price $210, to Waheed Khan

24 Sent a cheque for $380 to Waheed Khan in full settlement of the amount owing on 1 October

31 Iqbal Wholesalers charged $6 on the overdue account

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REQUIRED

(c) Write up the following accounts in the ledger of Sahira Ali for the month of October 2014. Balance the accounts and bring down the balances on 1 November 2014.

Sahira Ali
Waheed Khan account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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Iqbal Wholesalers account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[9]

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Sahira Ali's purchases for the year ended 31 October 2014 were as follows.

	$
Cash purchases	300
Credit purchases	21 200

On 31 October 2014 Sahira Ali owed her credit suppliers $3100.

REQUIRED

(d) State the formula for the calculation of the payment period for trade payables.

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..... [1]

(e) Calculate the payment period for trade payables. Your answer should be rounded up to the next whole day.

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..... [2]

(f) Suggest **one** advantage to Sahira Ali of paying her credit suppliers before the due date.

.....

..... [1]

(g) Suggest **one** disadvantage to Sahira Ali of paying her credit suppliers before the due date.

.....

..... [1]

Sahira Ali values her inventory at the lower of cost and net realisable value.

REQUIRED

(h) Explain why inventory should be valued on this basis.

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..... [2]

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(i) Explain the meaning of the term 'net realisable value'.

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..... [2]

(j) Sahira Ali overvalued her inventory on 31 October 2013.

Complete the table below by placing a tick (✓) in the correct column to show the effect of this on **each** of the following items.

	Overstated	Understated	No effect
Gross profit for the year ended 31 October 2013			
Gross profit for the year ended 31 October 2014			
Profit for the year ended 31 October 2013			
Profit for the year ended 31 October 2014			
Current assets at 31 October 2013			
Current assets at 31 October 2014			

[6]

[Total: 27]

2 The Mochudi Manufacturing Company was formed on 1 August 2013.

The following information is available.

	$
At 1 August 2013	
Cost of factory machinery	102 000
Cost of office fixtures and fittings	56 000
Cost of loose tools	4 400
For the year ended 31 July 2014	
Revenue	400 400
Purchases: Raw materials	99 500
Finished goods	19 300
Purchases returns: Raw materials	1 100
Wages and salaries: Factory operatives	94 200
Factory supervisors	41 050
Office staff	33 100
Sales staff	18 900
General expenses: Factory	19 400
Office	17 530
Rates and insurance	5 000
At 31 July 2014	
Inventory: Raw materials	8 600
Work in progress	8 200
Finished goods	21 100
Rates and insurance prepaid	400
General office expenses prepaid	280
Wages of factory operatives accrued	3 100
Value of loose tools	3 300

Additional information

1 No additional non-current assets were purchased during the year.

2 The factory machinery is to be depreciated at 15% per annum on cost.

3 The office fixtures and fittings are to be depreciated at $12\frac{1}{2}$ % per annum on cost.

4 The loose tools are to be revalued at the end of each financial year.

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

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REQUIRED

(a) Prepare the manufacturing account of The Mochudi Manufacturing Company for the year ended 31 July 2014.

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

[12]

(b) Prepare the income statement of The Mochudi Manufacturing Company for the year ended 31 July 2014.

The Mochudi Manufacturing Company
Income Statement for the year ended 31 July 2014

[10]

After the preparation of the manufacturing account and the income statement the following errors and omissions were discovered.

1 The trade receivables amounted to $32 600 on 31 July 2014. This included a debt, $200, which should have been written off.

2 A provision for doubtful debts of $2\frac{1}{2}$% of the remaining trade receivables should have been created.

3 No entry had been made for purchases returns of finished goods, $940.

4 The inventory of finished goods on 31 July 2014 included goods, $3050, which were damaged and which are expected to be sold for $2000.

REQUIRED

(c) Complete the table below to show the effect of correcting errors 1 – 4 on the profit for the year ended 31 July 2014.

Error	Effect on profit for the year		
	Increase $	Decrease $	No effect
1			
2			
3			
4			

[4]

[Total: 26]

3 The Leeford Athletics Club was formed some years ago.

The club has 100 members. The annual subscription is $120.
The club rents a clubhouse. The monthly rent is $300.

The following information was available on 1 November 2013.

	$
Accumulated fund	9 510
Equipment at book value	8 300
4% Bank loan	2 000
Cash at bank	4 590
Insurance prepaid to 30 November 2013	120
Clubhouse rent accrued	300
Subscriptions prepaid	1 200

The amounts received and paid during the year ended 31 October 2014 were as follows.

	$
Subscriptions for the year ended 31 October 2014	7 920
Purchase of new equipment	4 000
Proceeds of sale of old equipment (book value $2200)	1 500
General expenses	9 310
Loan interest paid	400
Rent of clubhouse	4 500
Net receipts from open day	770
Bank charges	30

All receipts were paid into the bank and all payments were made by cheque.

REQUIRED

(a) Write up the subscriptions account for the year ended 31 October 2014. Balance the account and bring down the balance on 1 November 2014.

Leeford Athletics Club
Subscriptions account

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..... [5]

(b) State the section of the statement of financial position on 31 October 2014 in which the balance of the subscriptions account would appear.

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[1]

(c) Prepare the receipts and payments account of the Leeford Athletics Club for the year ended 31 October 2014.

Leeford Athletics Club
Receipts and Payments Account for the year ended 31 October 2014

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[10]

(d) Complete the table below to show the amount charged in the income and expenditure account for the year ended 31 October 2014.

Give a reason for your answer in **each** case.

The first one has been completed as an example.

Item	$	Reason
Loan interest	*800*	*The accruals (matching) principle is applied. The amount owing at the year end is added to the amount paid to obtain the expense for the year.*
Sale of equipment		
Rent of clubhouse		

[6]

[Total: 22]

4 The following account appeared in the ledger of Adil Shanker.

Rent and rates account

		$			$
2013			2013		
June 1 Balance – rates b/d		70	June 1 Balance – rent b/d		120
2014			2014		
May 31 Bank – rent	1800		May 31 Income statement –		
rates	770	2570	rent	1440	
			rates	840	2280
			Balance – rent c/d		240
		2640			2640
2014					
June 1 Balance - rent b/d		240			

REQUIRED

(a) Explain the following entries in the above rent and rates account.

State the section of the statement of financial position on 31 May 2013 where each would have appeared.

1 June 2013 Balance – rates $70

Explanation .....

.....

.....

Section of statement of financial position ..... [3]

1 June 2013 Balance – rent $120

Explanation .....

.....

.....

Section of statement of financial position ..... [3]

(b) Explain the following entries in the rent and rates account.

31 May 2014 Bank $2570

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..... [2]

31 May 2014 Income statement $2280

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..... [2]

(c) Explain how the accruals (matching) principle was applied in the preparation of the rent and rates account.

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..... [2]

Adil Shanker provided the following information for his financial year ended 31 May 2014.

	$
Revenue (sales)	47 600
Cost of sales	38 400

REQUIRED

(d) Calculate the percentage of gross profit to revenue (sales). The calculation should be correct to **two** decimal places.

.....

.....

..... [2]

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(e) Suggest **two** reasons why the percentage of gross profit to revenue (sales) is lower than it was in the previous year.

1 .....

.....

2 .....

..... [2]

(f) State **two** reasons why Adil Shanker's bank manager would be interested in his financial statements.

1 .....

.....

2 .....

..... [2]

(g) Name **two** other business people who would be interested in Adil Shanker's financial statements.

1 .....

2 ..... [2]

[Total: 20]

5 Watson Limited provided the following information.

Trial Balance at 30 September 2014
(After the preparation of the Income Statement for the year ended 30 September 2014)

	$	$
Premises at cost	99 000	
Fixtures and fittings at cost	65 000	
Motor vehicles at cost	33 000	
Provision for depreciation of fixtures and fittings		23 000
Provision for depreciation of motor vehicles		11 000
Ordinary share capital		120 000
General reserve (1 October 2013)		20 000
Retained profits (1 October 2013)		9 000
Profit for the year		38 000
Interim ordinary share dividend	6 000	
4% Debentures		10 000
Inventory (30 September 2014)	19 300	
Trade payables		16 300
Trade receivables	28 000	
Other payables		350
Other receivables	300	
Provision for doubtful debts		1 400
Bank		2 050
Cash	500	
	251 100	251 100

Appropriation Account for the year ended 30 September 2014

		$	$
Profit for the year			38 000
Less Ordinary share dividend –	paid	6 000	
	proposed	2 000	
		8 000	
Transfer to general reserve		12 000	20 000
Profit retained in the year			18 000
Retained profit brought forward			9 000
Retained profit carried forward			27 000

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REQUIRED

(a) Prepare the statement of financial position of Watson Limited at 30 September 2014.

Watson Limited
Statement of Financial Position at 30 September 2014

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..... [15]

Watson Limited requires funds for expansion and is considering raising the money by issuing more debentures.

REQUIRED

(b) State **two** features of debentures.

1 .....

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2 .....

..... [2]

(c) Explain how the ordinary shareholders may be affected if Watson Limited issues additional debentures.

.....

.....

..... [2]

Watson Limited provided the following information for the year ended 30 September 2014.

	$
Revenue (sales)	304 000
Cost of sales	243 200
Inventory on 1 October 2013	22 500
Inventory on 30 September 2014	19 300

REQUIRED

(d) (i) State what is meant by the term 'rate of inventory turnover'.

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.....

..... [1]

(ii) State the formula for the calculation of the rate of inventory turnover.

.....

..... [1]

(iii) Calculate the rate of inventory turnover for the year ended 30 September 2014. The calculation should be correct to **two** decimal places.

.....

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..... [2]

The rate of inventory turnover for the previous two years was:

Year ended 30 September 2012	15.55 times
Year ended 30 September 2013	14.34 times

REQUIRED

(e) Comment on the change in the rate of inventory turnover over the three years ended 30 September 2014.

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..... [2]

[Total: 25]

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