**Cambridge Assessment International Education**
Cambridge International General Certificate of Secondary Education

**ACCOUNTING** **0452/21**

Paper 2 **October/November 2017**

MARK SCHEME

Maximum Mark: 120

**Published**

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| Question | Answer | Marks |
|---|---|---|
| 1(a) | | **15** |

Brian account

| | $ | | | $ | |
|---|---|---|---|---|---|
| *2016* | | 2017 | | | |
| *Aug 1 Balance b/d* | *1 000* | July 31 | Cash | 720 | **(1)** |
| | | | Bad debts | 280 | **(1)** |
| | 1 000 | | | 1 000 | |

Bad debts account

| | $ | | | $ | |
|---|---|---|---|---|---|
| *2017* | | 2017 | | | |
| *July 31 Total to date* | *990* | July 31 | Income | | |
| Brian | 280 | **(1)** | Statement | 1 270 | **(1)OF** |
| | 1 270 | | | 1 270 | |

Bad debts recovered account

| | $ | | | $ | |
|---|---|---|---|---|---|
| 2017 | | 2017 | | | |
| July 31 Income | | July 31 | Bank | | |
| Statement* | 118 | **(1)** | (AL Stores) | 118 | **(1)** |
| | 118 | | | 118 | |

* Alternately accept transfer to bad debts account and net transfer from bad debts to income statement

Rent account

| | $ | | | $ | |
|---|---|---|---|---|---|
| *2017* | | 2017 | | | |
| *July 31 Total paid* | *5 200* | July 31 | Balance c/d | 400 | |
| | | | Drawings | 1 200 | **(1)** |
| | | | Income Statement | 3 600 | **(1)OF** |
| | 5 200 | | | 5 200 | |
| 2017 | | | | | |
| Aug 1 Balance b/d | 400 | **(1)** | | | |

Drawings account

| | $ | | | $ | |
|---|---|---|---|---|---|
| 2017 | | 2017 | | | |
| *July 31 Total to date* | *9 650* | July 31 | Capital | 10 850 | **(1)OF** |
| Rent | 1 200 | **(1)OF** | | | |
| | 10 850 | | | 10 850 | |

Commission receivable account

| | $ | | | $ | |
|---|---|---|---|---|---|
| 2017 | | *2017* | | | |
| July 31 Income | | *July 31* | *Total to date* | *890* | |
| Statement | 1 040 | **(1)** | Balance c/d | 150 | |
| | 1 040 | | | 1 040 | |
| 2017 | | | | | |
| Aug 1 Balance b/d | 150 | **(1)** | | | |

| Question | Answer | Marks |
|---|---|---|
| 1(a) | Provision for depreciation of office fixtures account<br>$ $<br>2017 *2016*<br>July 31 Balance c/d 15 435 *Aug 1 Balance b/d* *11 100*<br>2017<br>July 31 Income Statement 4 335 **(1)**<br>15 435 15 435<br>2017<br>Aug 1 Balance b/d 15 435 **(1)OF** | |
| 1(b) | An estimate **(1)** of the amount which a business will lose/be unable to collect in a financial year because of bad debts **(1)** | **2** |
| 1(c) | Percentage of the total amount owing by credit customers<br>Estimating which individual credit customers will not pay their accounts<br>Considering the length of time the debts have been outstanding<br>Estimate, based on experience, of amount lost each year from bad debts<br>**Any 1 point (1)** | **1** |
| 1(d) | debit: Income statement **(1)**; credit: Provision for doubtful debts **(1)** | **2** |
| 1(e) | The profit for the year is not overstated **(1)**<br>The trade receivables (current assets) are not overstated/shown at more realistic value **(1)** | **2** |
| 1(f) | The sales for which a business is unlikely to be paid **(1)** are regarded as an expense of the year in which those sales are made **(1)** | **2** |
| 1(g) | Reduce credit sales/sell on a cash basis<br>Obtain references from new credit customers<br>Fix a credit limit for each customer<br>Improve credit control<br>Issue invoices and monthly statements promptly<br>Refuse further supplies until outstanding balance is paid<br>Allow cash discount for prompt payment<br>Charge interest on overdue accounts<br>**Any 2 points (1) each** | **2** |

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
<table>
<tr><td></td><td>debit</td><td>credit</td><td>no entry</td></tr>
<tr><td>opening balance owed by credit customers</td><td>✓(1)</td><td></td><td></td></tr>
<tr><td>credit sales</td><td>✓(1)</td><td></td><td></td></tr>
<tr><td>cash sales</td><td></td><td></td><td>✓(1)</td></tr>
<tr><td>provision for doubtful debts</td><td></td><td></td><td>✓(1)</td></tr>
<tr><td>bad debts written off</td><td></td><td>✓(1)</td><td></td></tr>
<tr><td>cash discount allowed to credit customers</td><td></td><td>✓(1)</td><td></td></tr>
<tr><td>trade discount allowed to credit customers</td><td></td><td></td><td>✓(1)</td></tr>
<tr><td>contra between sales and purchases ledger</td><td></td><td>✓(1)</td><td></td></tr>
<tr><td>cash received from credit customers</td><td></td><td>✓(1)</td><td></td></tr>
</table>
</td><td>9</td></tr>
<tr><td>2(b)</td><td>
<table>
<tr><td></td><td>book of prime (original) entry</td></tr>
<tr><td>returns to credit suppliers</td><td>purchases returns journal (1)</td></tr>
<tr><td>discount received</td><td>cash book (1)</td></tr>
<tr><td>interest charged by credit supplier</td><td>journal (1)</td></tr>
<tr><td>contra entry to sales ledger control account</td><td>journal (1)</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>2(c)(i)</td><td>An entry which appears on the debit side of the purchases ledger control account and the credit of the sales ledger control account (1)</td><td>1</td></tr>
<tr><td>2(c)(ii)</td><td>It is made when a sales ledger account is set off against a purchases ledger account of the same person/business (1)</td><td>1</td></tr>
<tr><td>2(d)</td><td>Overpayment of the amount owing<br>Failure to deduct cash discount due<br>Goods returned after account settled<br>Payment made in advance<br>Any 2 reasons (1) each</td><td>2</td></tr>
<tr><td>2(e)(i)</td><td>$\frac{\text{Trade receivables}}{\text{Credit sales}} \times \frac{365}{1}$ } whole formula (1)</td><td>1</td></tr>
<tr><td>2(e)(ii)</td><td>$\frac{20\,520}{186\,700} \times \frac{365}{1}$ } whole formula (1)<br>= 40.11 = 41 days (1)</td><td>2</td></tr>
<tr><td>2(f)</td><td>Offer cash discount for prompt payment<br>Charge interest on overdue accounts<br>Improve credit control/send invoices or statements promptly<br>Refuse further supplies until outstanding balance paid<br>Invoice discounting and debt factoring<br>Any 2 points (1) each</td><td>2</td></tr>
</table>

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| Question | Answer | Marks |
|---|---|---|
| 2(g) | $\frac{\text{Trade payables}}{\text{Credit purchases}} \times \frac{365}{1}$ **} whole formula (1)** | **1** |
| 2(h) | Will not be pleased<br>May refuse further supplies<br>May charge interest<br>May issue stern reminders/threaten legal action<br>**Or other suitable comment**<br>**Any 2 comments (1) each** | **2** |

| Question | Answer | Marks |
|---|---|---|
| 3(a) | | **5** |

| | $ | $ | |
|---|---|---|---|
| Subscriptions received | | 12 540 | **(1)** |
| Add Subscriptions outstanding at year end | | 240 | **(1)** |
| | | 12 780 | |
| Less Subscriptions prepaid at year end | 180 **(1)** | | |
| Subscriptions outstanding at start of year | 600 **(1)** | 780 | |
| Subscriptions for the year | | 12 000 | **(1)** |

Accept alternative presentation

| Question | Answer | Marks |
|---|---|---|
| 3(b) | | **9** |

AS Sports Club
Income and Expenditure Account for the year ended 30 September 2017

| | $ | $ | | $ | |
|---|---|---|---|---|---|
| Income | | | | | |
| Subscriptions | | | | 12 000 | **(1)OF** |
| Profit on shop – revenue | | 3 510 | | | |
| – less purchases | | 2 410 | | 1 100 | **(1)** |
| | | | | 13 100 | |
| Expenditure | | | | | |
| Rates and insurance (1500 **(1)** + 60 **(1)**) | | 1 560 | | | |
| Open day – expenses | 5 250 | | | | |
| less receipts | 4 180 | 1 070 | **(1)** | | |
| Rent | | 1 800 | **}(1)** | | |
| General expenses | | 2 640 | **}** | | |
| Loan interest (5% × 7 000) | | 350 | **(1)** | | |
| Depreciation of Equipment ((22 000 + 8 000) × 20%) | | 6 000 | **(1)** | 13 420 | |
| Deficit | | | | 320 | **(1)OF** |

| Question | Answer | Marks |
|---|---|---|
| 3(c) | AS Sports Club<br>Statement of Financial Position at 30 September 2017<br>$ $ $<br>Assets<br>Non-current assets Cost Accumulated depreciation Book value<br>Equipment 30 000 10 400 **(1)OF** 19 600 **(1)OF**<br><br>Current assets<br>Other receivables<br>(Subscriptions) 240 **(1)**<br><br>Total assets 19 840<br><br>Liabilities<br><br>Accumulated fund<br>Opening balance 11 870 **(1)**<br>Less Deficit 320 **(1)OF**<br>11 550<br>Non-current liabilities<br>Bank loan<br>(repayable 2020) 7 000 **(1)**<br><br>Current liabilities<br>Other payables 350 **(1)OF**<br>(loan interest)<br>Subscriptions prepaid 180 **(1)**<br>Bank 760 **(1)**<br>1 290<br><br>Total liabilities 19 840 | **9** |
| 3(d) | Loan interest is an expense account/any accrued interest is a current liability **(1)**<br>The loan is a non-current liability **(1)**<br>**Accept other valid points** | **2** |

| Question | Answer | Marks |
|---|---|---|
| 4(a) | (87 500 + 56 200 + 100) : (81 500 + 17 100)<br>= 143 800 : 98 600 **(1) whole formula**<br>= 1.46 : 1 **(1)** | **2** |
| 4(b) | Current assets only approximately 1½ times the current liabilities<br>Lower than the “benchmark” of 2:1<br>Can meet the current liabilities from the current assets<br>Do not have a lot of surplus current assets available after paying current liabilities<br>Seems to be a little inadequate (depending on the type of business)<br>**Comments to be based on answer to (a)**<br>**Any 2 comments (1) each** | **2** |

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(c)</td><td>(56 200 + 100) : (81 500 + 17 100)<br>= 56 300 : 98 600 (1) whole formula<br>= 0.57 : 1 (1)</td><td>2</td></tr>
<tr><td>4(d)</td><td>Increased expenditure on inventory<br>Increase in bank overdraft/change from positive bank balance to overdraft<br>Purchase of non-current assets<br>Repayment of long-term loan<br>Increase in current liabilities/increase in trade payables<br>Decrease in trade receivables<br>Decrease in cash<br>Increase in drawings<br>Any 2 reasons (1) each</td><td>2</td></tr>
<tr><td>4(e)</td><td>Unable to pay debts when they fall due<br>Unable to take advantage of cash discounts<br>Unable to take advantage of business opportunities when they arise<br>May have difficulty in obtaining further supplies<br>May not be able to take drawings<br>Any 2 points (1) each</td><td>2</td></tr>
<tr><td>4(f)</td><td>
<table>
<tr><th></th><th colspan="3">current ratio</th><th colspan="3">quick ratio</th></tr>
<tr><th></th><th>increase</th><th>decrease</th><th>no effect</th><th>increase</th><th>decrease</th><th>no effect</th></tr>
<tr><td>introduce $20 000 additional capital</td><td>✓</td><td></td><td></td><td>✓</td><td></td><td></td></tr>
<tr><td>obtain short-term bank loan of $10 000</td><td></td><td></td><td>✓(1)</td><td></td><td></td><td>✓(1)</td></tr>
<tr><td>sell half the inventory at cost price</td><td></td><td></td><td>✓(1)</td><td>✓(1)</td><td></td><td></td></tr>
</table>
</td><td>4</td></tr>
<tr><td>4(g)</td><td>$\frac{\text{Cost of sales}}{\text{Average inventory}}$</td><td>1</td></tr>
<tr><td>4(h)</td><td>$\frac{765\,990}{(87\,500 + 72\,000) \div 2}$ Or $\frac{765\,990}{87\,500 - (15\,500 \div 2)}$<br>= $\frac{765\,990}{79\,750}$ } (1)<br>= 9.60 times (1)</td><td>2</td></tr>
<tr><td>4(i)</td><td>Higher inventory levels<br>Lower sales activity<br>Or other suitable reason<br>Any 2 reasons (1) each</td><td>2</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(a)</td><td>$\frac{43\,000}{(500\,000 + 11\,000 + 14\,000 + 75\,000}$<br>$= \frac{43\,000}{600\,000}$ **(1)** **(1)** $\times \frac{100}{1}$<br>= 7.17% **(1)**</td><td>**3**</td></tr>
<tr><td>5(b)</td><td>$\frac{25\,000}{500\,000} \times \frac{100}{1}$<br>= 5%</td><td>**1**</td></tr>
<tr><td>5(c)</td><td>$\frac{15\,000 + 30\,000}{500\,000 + 100\,000} \times \frac{100}{1}$<br>$= \frac{45\,000}{600\,000}$ **(1)** **(1)**<br>= 7.5% **(1)**</td><td>**3**</td></tr>
<tr><td>5(d)</td><td>71 000 – (3% × 75 000) **(1)**<br>= 71 000 – 2250<br>= 68 750 **(1)**</td><td>**2**</td></tr>
<tr><td>5(e)</td><td>CP Limited<br>Statement of Changes in Equity for the year ended 30 September 2017
<table>
<tr><th></th><th>Ordinary share capital</th><th>General reserve</th><th>Retained earnings</th><th>Total</th><th></th></tr>
<tr><td></td><td>$</td><td>$</td><td>$</td><td>$</td><td></td></tr>
<tr><td>On 1 October 2016</td><td>500 000</td><td>11 000</td><td>14 000</td><td>525 000</td><td>**(1)**</td></tr>
<tr><td>Share issue</td><td>100 000</td><td></td><td></td><td>100 000</td><td>**(1)**</td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>68 750</td><td>68 750</td><td>**(1)OF**</td></tr>
<tr><td>Dividend paid (for year ended 30 September 2016)</td><td></td><td></td><td>(25 000)</td><td>(25 000)</td><td>**(1)**</td></tr>
<tr><td>Dividend paid (for year ended 30 September 2017)</td><td></td><td></td><td>(15 000)</td><td>(15 000)</td><td>**(1)**</td></tr>
<tr><td>Transfer to general reserve</td><td></td><td>5 000</td><td>(5 000)</td><td></td><td>**(1)**</td></tr>
<tr><td>On 30 September 2017</td><td>600 000</td><td>16 000</td><td>37 750</td><td>653 750</td><td>**(1)**</td></tr>
</table></td><td>**7**</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>5(f)</td><td>Long term loans<br>Debenture holders are not members of the company<br>Do not carry voting rights<br>Carry a fixed rate of interest<br>Interest is not dependent on the company's profit<br>Are often secured on the assets of the company's<br>Debenture holders are repaid before the shareholders in a winding-up<br>Any 2 features (1) each</td><td>2</td></tr>
<tr><td>5(g)</td><td>Carry a fixed rate of dividend<br>Dividend may not be paid if there is not enough profit<br>Dividend is paid before ordinary share dividend<br>Preference shareholders are members of the company<br>Do not usually carry voting rights<br>Capital is repaid before ordinary share capital in a winding-up<br>Are not secured on the assets of the company<br>Any 2 features (1) each</td><td>2</td></tr>
<tr><td>5(h)</td><td>
<table>
<tr><th></th><th>increase $</th><th>decrease $</th><th>no effect</th></tr>
<tr><td>effect on current assets</td><td>300 000</td><td></td><td></td></tr>
<tr><td>effect on non-current liabilities</td><td>300 000 (1)</td><td></td><td></td></tr>
<tr><td>effect on profit for the year</td><td></td><td>9 000 (2)*</td><td></td></tr>
<tr><td>effect on profit available for ordinary shareholders</td><td></td><td>9 000 (1)OF</td><td></td></tr>
<tr><td>effect on equity</td><td></td><td></td><td>✓(1)</td></tr>
</table>
* (1) position + (1) amount
</td><td>5</td></tr>
</table>