Cambridge IGCSE

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

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| CANDIDATE NAME | | | | | | | | | |
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*6816281682*

**ACCOUNTING** **0452/23**

Paper 2 **October/November 2018**

**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 **23** printed pages and **1** blank page.

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CAMBRIDGE International Examinations

**[Turn over**

**1** Thato opened a wholesale shoe business on 1 August 2018. He buys and sells on credit terms.

**REQUIRED**

**(a) (i)** State the purpose of a debit note received by Thato from Abebe, a credit customer.

.....

..... [1]

**(ii)** Complete the following table by placing a tick (✓) to indicate how Thato would record this debit note in the account of Abebe.

| credit Abebe account | debit Abebe account | no entry |
|---|---|---|
| | | |

[1]

**(b) (i)** State the purpose of a statement of account issued by Thato to Abebe.

.....

..... [1]

**(ii)** State why Thato did **not** record this in his ledger.

.....

..... [1]

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Thato received the following invoice from Nyack, a credit supplier.

Invoice
Nyack
Low Road
Anytown

Thato
Lot 14 Industrial Estate
Somecity

4 August 2018

| | | $ per unit | $ |
|---|---|---|---|
| 100 pairs | Men's shoes assorted sizes and styles | 40 | 4000 |
| 50 pairs | Ladies' shoes assorted sizes and styles | 45 | 2250 |
| | | | 6250 |
| | Less 20% trade discount | | 1250 |
| | | | 5000 |
| | Terms: 2½% discount for payment in 30 days | | |

**REQUIRED**

**(c) (i)** State **one** reason why Nyack allowed Thato trade discount.

..... [1]

**(ii)** State **one** reason why Nyack offered Thato cash discount.

..... [1]

**(iii)** Calculate the amount of the cheque Thato gave to Nyack on 31 August 2018 to settle the account.

.....

.....

..... [1]

**(iv)** Name the ledger in which Thato would maintain Nyack's account.

..... [1]

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**[Turn over**

**In addition** to the invoice received from Nyack on 4 August, Thato received the following documents.

August 9 Invoice received from Gaby, a new supplier for goods, $2600 less 20% trade discount.

13 Credit note received from Gaby for goods returned, list price $100.

On 30 August Thato paid Gaby the amount owing by cheque less 2% cash discount.

**REQUIRED**

**(d)** Prepare Thato's purchases journal and purchases returns journal for the month of August 2018.

Total **each** journal and indicate the ledger account to which the total would be transferred.

Thato
Purchases journal

| Date | Details | $ | $ |
|---|---|---|---|
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
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| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |

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Purchases returns journal

| Date | Details | $ | $ |
|---|---|---|---|
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |

[5]

**(e)** Prepare the following accounts in Thato's ledger for the month of August 2018. It is **not** necessary to balance any of the accounts.

Thato
Purchases account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

Purchases returns account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

Gaby account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

[6]

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**[Turn over**

**(f)** Name the accounting principle which Thato did **not** apply in **each** of the following.

| | Principle |
|---|---|
| Thato debited the wages account with $400 withdrawn from the bank for personal use. | |
| Thato revalued his premises by $20 000 when the premises next door were offered for sale for $20 000 more than Thato paid for his. | |
| Thato credited the sales account with $1000 after a customer promised to purchase shoes, selling price, $1000, next month. | |

[3]

[Total: 22]

**2** Sara maintains a petty cash book. The monthly imprest of $120 is restored on the first day of each month.

The entries in Sara's petty cash book for July 2018 were as follows.

Sara
Petty Cash Book

| Total received | Date | Details | Total paid | Cleaning | Postages | Sundries | Ledger accounts |
|---|---|---|---|---|---|---|---|
| $ | | | $ | $ | $ | $ | $ |
| 42 | July 1 | Balance b/d | | | | | |
| 78 | | Cash | | | | | |
| | 4 | Stamps | 4 | | 4 | | |
| | 13 | Parcel post | 25 | | 25 | | |
| | 19 | Cleaning materials | 55 | 55 | | | |
| | 23 | Sabeena (credit supplier) | 19 | | | | 19 |
| | 29 | Sundry expenses | 6 | | | 6 | |
| 5 | 30 | Refund for faulty cleaning materials | | | | | |

**REQUIRED**

**(a)** State **one** advantage to Sara of maintaining a petty cash book.

.....

..... [1]

**(b)** Show the entries which would be made in the cleaning account in July 2018. It is **not** necessary to close or balance the account.

Sara
Cleaning account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

[2]

**(c)** State how the double entry is completed for the item recorded in the ledger accounts column of the petty cash book.

.....

..... [2]

**(d)** State the double entry for restoring the imprest on 1 August 2018.

| debit | | credit | |
|---|---|---|---|
| | $ | | $ |
| …… | …… | …… | …… |

[3]

Sara's financial year ends on 31 July.

Hannah pays Sara a commission on goods purchased from her by Sara's customers. The commission is paid six monthly in arrears.

Sara provided the following information.

| | | | $ |
|---|---|---|---|
| 2017 | | | |
| Aug | 1 | Commission outstanding | 190 |
| | 3 | Cheque received for commission outstanding | 190 |
| 2018 | | | |
| Feb | 1 | Cheque received for commission | 200 |
| July | 31 | Commission outstanding | 220 |

**REQUIRED**

**(e)** Complete the commission receivable account for the year ended 31 July 2018. Balance the account and bring down the balance on 1 August 2018.

Sara
Commission receivable account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| *2017* | | | | | |
| *Aug 1* | *Balance b/d* | *190* | …… | …… | …… |
| …… | …… | …… | …… | …… | …… |
| …… | …… | …… | …… | …… | …… |
| …… | …… | …… | …… | …… | …… |
| …… | …… | …… | …… | …… | …… |
| …… | …… | …… | …… | …… | …… |
| …… | …… | …… | …… | …… | …… |

[4]

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Sara maintains one combined account for rates and insurance.

On 1 August 2017 two months' rates, $800, were outstanding and three months' insurance, $570, was prepaid.

During the year ended 31 July 2018 the following payments were made by cheque.

| 2017 | | $ |
|---|---|---|
| Sept 1 | Rates for 13 months to 30 June 2018 | 5200 |
| Nov 1 | Insurance for 12 months to 31 October 2018 | 3400 |

On 31 July 2018 it was found that $1000 of the insurance paid on 1 November 2017 related to Sara's private house.

**REQUIRED**

**(f)** Complete the rates and insurance account for the year ended 31 July 2018. Balance the account and bring down the balances on 1 August 2018.

Sara
Rates and insurance account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| *2017* | | | | | |
| *Aug 1* | *Balance (insurance) b/d* | *570* | *2017 Aug 1* | *Balance (rates) b/d* | *800* |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
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| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

[8]

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Sara understands that certain objectives must be considered when selecting accounting policies.

**REQUIRED**

**(g)** State what is meant by the objective of 'reliability'.

.....

.....

.....

..... [2]

**(h)** Name **three other** objectives which should be considered when selecting accounting policies.

1 ……

2 ……

3 …… [3]

[Total: 25]

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**PLEASE TURN OVER**

**3** Sadia runs a secretarial agency. Her financial year ends on 30 September.

She provided the following information.

| | $ |
|---|---|
| At 1 October 2017 | |
| Office equipment at cost | 26 000 |
| Provision for depreciation of office equipment | 9 360 |
| Office furniture at valuation | 11 100 |
| Rent prepaid to 30 November 2017 | 190 |
| Fees owing from clients | 2 880 |
| Provision for doubtful debts | 144 |
| During the year ended 30 September 2018 | |
| Receipts | |
| Fees from clients | 42 100 |
| Payments | |
| Wages | 29 800 |
| Advertising for 15 months to 31 December 2018 | 3 150 |
| Rent for 12 months to 30 November 2018 | 1 200 |
| General expenses | 1 775 |
| Office furniture | 1 450 |

Additional information

1 At 30 September 2018 fees owing by clients amounted to $3120.

2 Office equipment is depreciated at 20% per annum using the reducing (diminishing) balance method.

3 Office furniture is depreciated using the revaluation method. The office furniture was valued at $11 400 on 30 September 2018.

4 The provision for doubtful debts is to be maintained at the same rate as the previous year.

5 Cash, $3500, taken by Sadia during the year for personal use, was debited to the wages account.

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**REQUIRED**

**(a)** Prepare the income statement for the year ended 30 September 2018.

Sadia
Income Statement for the year ended 30 September 2018

| | $ | $ |
|---|---|---|
| ..... | ..... | ..... |
| ..... | ..... | ..... |
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| ..... | ..... | ..... |

[13]

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**[Turn over**

**(b)** Name **three** items which may appear in the income statement of a trading business but which would **not** appear in Sadia's income statement.

1 .....

2 .....

3 ..... [3]

**(c)** Suggest **two** reasons why Sadia's bank manager would be interested in her financial statements.

1 .....

.....

2 .....

..... [2]

**(d)** Name **two other** interested parties who may wish to see Sadia's financial statements.

1 .....

2 ..... [2]

[Total: 20]

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**4** Rizwan is a motor trader. His financial year ends on 30 September. On 30 September 2018 Rizwan opened a suspense account.

**REQUIRED**

**(a)** Suggest **two** reasons why it was necessary for Rizwan to open a suspense account.

1 .....

.....

2 .....

..... [2]

Rizwan later discovered the following errors in his accounting records.

1 Rent received, $560, had been debited to the rent payable account.

2 The purchase of office equipment, $890, had been entered in the purchases account.

3 The balance of the petty cash book, $21, had been omitted from the trial balance.

**REQUIRED**

**(b)** Prepare journal entries to correct these errors. Narratives **are** required.

Rizwan
Journal

| | | Debit $ | Credit $ |
|---|---|---|---|
| 1 | ..... | ..... | ..... |
| | ..... | ..... | ..... |
| | ..... | ..... | ..... |
| | ..... | ..... | ..... |
| 2 | ..... | ..... | ..... |
| | ..... | ..... | ..... |
| | ..... | ..... | ..... |
| | ..... | ..... | ..... |
| 3 | ..... | ..... | ..... |
| | ..... | ..... | ..... |
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| | ..... | ..... | ..... |

[10]

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After correcting the errors, Rizwan prepared financial statements for the year ended 30 September 2018.

He provided the following information.

| | 30 September 2017 | 2018 |
|---|---|---|
| Percentage of gross profit to revenue (gross profit margin) | 30.88% | 33.45% |
| Percentage of profit to revenue (net profit margin) | 15.55% | 14.35% |
| Return on capital employed | 6.13% | 8.27% |

**REQUIRED**

**(c)** Suggest **two** reasons for the change in the percentage of gross profit to revenue.

1 .....

.....

2 .....

..... [2]

**(d)** State the year in which Rizwan had a better control of his expenses. Give a reason for your answer.

Year ended 30 September .....

Reason .....

..... [2]

**(e)** Suggest **two** ways in which the percentage of profit to revenue could be improved.

1 .....

.....

2 .....

..... [2]

**(f)** Suggest **two** reasons for the change in the return on capital employed.

1 .....

.....

2 .....

..... [2]

[Total: 20]

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**PLEASE TURN OVER**

**5** Mark and Ella are in partnership. Their financial year ends on 31 August.

The partnership agreement provides for interest on capital, interest on drawings and an annual salary for Ella. Profits and losses are shared equally.

A separate capital and current account is maintained for each partner.

The following is an extract from the profit and loss appropriation account of Mark and Ella for the year ended 31 August 2018.

Mark and Ella
Extract from Profit and Loss Appropriation Account for the year ended 31 August 2018

| | | $ | $ |
|---|---|---|---|
| Profit for the year | | | 38 600 |
| Interest on drawings | Mark | 960 | |
| | Ella | 1 280 | 2 240 |
| | | | 40 840 |
| Interest on capital | Mark | 6 000 | |
| | Ella | 4 000 | |
| | | 10 000 | |
| Salary | Ella | 15 000 | 25 000 |

The following additional information was available at 31 August 2018.

| | | $ |
|---|---|---|
| Capital accounts 1 September 2017 | Mark | 120 000 |
| | Ella | 80 000 |
| Current accounts 1 September 2017 | Mark | 1 800 debit |
| | Ella | 2 000 credit |
| Drawings | Mark | 12 000 |
| | Ella | 16 000 |
| Premises at cost | | 165 000 |
| Fixtures and equipment at book value | | 24 400 |
| Motor vehicles at book value | | 14 750 |
| Trade receivables | | 16 800 |
| Trade payables | | 19 240 |
| Inventory | | 14 950 |
| Bank | | 5 590 credit |
| Petty cash | | 150 |
| Provision for doubtful debts | | 420 |

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**REQUIRED**

**(a)** Suggest **two** advantages of maintaining both a capital account and a current account for each partner.

1 .....

.....

2 .....

..... [2]

**(b)** Complete the current accounts of the partners for the year ended 31 August 2018. Balance the accounts and bring down the balances on 1 September 2018.

Mark and Ella
Current accounts

| Date | Detail | Mark $ | Ella $ | Date | Detail | Mark $ | Ella $ |
|---|---|---|---|---|---|---|---|
| *2017 Sep 1* | *Balance b/d* | *1800* | …… | *2017 Sep 1* | *Balance b/d* | …….. | *2000* |
| …… | …… | …….. | …… | …… | …… | …….. | …… |
| …… | …… | …….. | …….. | …… | …… | …….. | …… |
| …… | …… | …….. | …… | …… | …… | …….. | …… |
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| …… | …… | …….. | …….. | …… | …… | …….. | …… |
| …… | …… | …….. | …… | ……. | …… | …….. | …… |
| …… | …… | …….. | …….. | …… | …… | …….. | …… |

[7]

**(c)** Prepare the statement of financial position at 31 August 2018.

You may insert the balances on the current accounts prepared in **(b)** as full details of the current accounts are **not** required.

Mark and Ella
Statement of Financial Position at 31 August 2018

| | $ | $ | $ |
|---|---|---|---|
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
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| ..... | ..... | ..... | ..... |

[6]

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Ella has proposed that the partnership agreement should be amended so that interest will no longer be charged on drawings.

**REQUIRED**

**(d)** Explain why Mark is **not** in agreement with this proposal.

.....

.....

.....

.....

..... [2]

Mark and Ella are considering inviting their manager, Paul, to join the partnership.

**REQUIRED**

**(e)** Suggest **two** factors Paul should consider before accepting the invitation.

1.....

.....

2.....

..... [2]

[Total: 19]

**6** Josef manufactures computer accessories. His financial year ends on 31 August.

Josef does not have any work in progress.

His mark-up is 20%.

Josef provided the following information for the year ended 31 August 2018.

| | $ |
|---|---|
| Prime cost | 30 000 |
| Factory overheads | 6 500 |
| Cost of production | 36 500 |
| | |
| Output | 1 000 units |

**REQUIRED**

**(a)** State the meaning of the term 'prime cost'.

.....

..... [1]

**(b)** Suggest **two** items which may be included in the factory overheads.

1 .....

2 ..... [2]

**(c)** Calculate the gross profit for the year ended 31 August 2018.

.....

..... [1]

Josef is considering purchasing a new machine costing $15 000. He can invest additional capital of $5000.

**REQUIRED**

**(d)** Suggest **two** ways in which Josef could obtain the additional finance required to purchase the machine.

1 .....

2 ..... [2]

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Josef estimated that the purchase of the machine would result in the following:

1 Output would increase by 20%.

2 Prime cost would increase in direct proportion to output.

3 Factory overheads would increase by $1500.

4 Mark-up would have to be reduced to 18% in order to sell all the output.

**REQUIRED**

**(e)** Calculate the estimated gross profit for the year if the new machine is purchased.

.....

.....

.....

.....

.....

.....

.....

..... [4]

**(f)** State **four** disadvantages to Josef of purchasing the new machine.

1 .....

.....

2 .....

.....

3 .....

.....

4.....

.....

[4]

[Total: 14]

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