

**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2006 question paper**

**0452 ACCOUNTING**

**0452/03** Paper 3, maximum raw mark 100

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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## Question 1

Salem Ahmed  
Trading and Profit and Loss Account for the year ended 31 July 2006

	\$	\$	\$	
Sales		89 500	(1)	
Less Sales returns		<u>1 100</u>	(1)	88 400
Less Cost of Sales – Opening stock		10 260	(1)	
Purchases	65 700	(1)		
Less goods for own use	<u>1 260</u>	(1)		
		<u>64 440</u>		
		74 700		
Less Closing stock		<u>8 400</u>	(1)O/F	<u>66 300</u> (1)O/F
Gross Profit				22 100 (2)
Discount received				610 (1)
Bad debts recovered				<u>170</u> (1)
				22 880
Carriage outwards		210	(1)	
Discount allowed		600	(1)	
Administration expenses		21 215	(1)	
Increase in provision for doubtful debts (180 – 130)		50	(1)	
Depreciation – Equipment		405	(1)	
Fixtures (7800 – 7250)		<u>550</u>	(1)	<u>23 030</u>
Net loss				<u>150</u> (1)O/F

Horizontal presentation acceptable

[Total 18]

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**Question 2**

(a)

Journal			
		Debit \$	Credit \$
1	Suspense Purchases	750 (1)	750 (1)
2	Sabina Khan Robina Khan	250 (1)	250 (1)
3	Suspense Bad debts Bad debts recovered	300 (1)	150 (1) 150 (1)*

[7]

(b)

Suspense account			
	\$		\$
Purchases	750 (1)	Difference on trial balance	1450 (1)
Bad debts	150 (1)		
Bad debts recovered	150 (1)*		
Balance c/d	<u>400</u>		
	<u>1450</u>		
		Balance b/d	<u>400</u>

+ (1) for either bringing down closing O/F balance OR totalling each side to indicate that the account is now closed (based on O/F entries).

**Alternative presentation**

Suspense account			
	Debit \$	Credit \$	Credit \$
Difference on trial balance		1450 (1)	1450 Cr.
Purchases	750 (1)		700 Cr.
Bad debts	150 (1)		550 Cr.
Bad debts recovered	150 (1)*		400 Cr.

+ (1) for either showing O/F closing balance in balance column, or showing account is closed by having zero as final balance.

[5]

\* Alternatively allow a total of \$300 to bad debts account for (2) marks: the question is unclear in which financial year the debt was recovered.

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**Question 2 Continued**

(c) Answer to be based on answer to (b) –

If (b) shows a closing balance –

No (1)

If all the errors has been discovered the suspense account would be closed (1)

If (b) shows the account is closed –

Yes (1)

It is likely that the errors have been discovered as the suspense account is closed (1)

[2]

(d) Advantages of preparing a sales ledger control account (apart from helping locate errors when a trial balance does not balance) –

Provides instant total of debtors

Proves the arithmetical accuracy of sales ledger

Enables the Balance Sheet to be prepared quickly

Provides a summary of the transactions relating to debtors for the period

Provides an internal check on the sales ledger – may reduce fraud

**Or other relevant points**

**Any 3 points (1) each**

[3]

(e) A contra entry is where a transfer is made from an account of a person/business in the sales ledger to an account of the same person/business in the purchases ledger. This may occur when a person/business is both a customer and a supplier.

[2]

(f)

	Item	Entry in sales ledger control account
(ii)	Bad debts	credit (1)
(iii)	Provision for doubtful debts	no entry (1)
(iv)	Interest charged on overdue account	debit (1)

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## Question 3

(a)

	Trading business	Non-trading organisation
(ii)	Net loss	Deficit ( <b>Or</b> Excess of expenditure over income) (1)
(iii)	Capital	Accumulated fund (1)
(iv)	Profit and Loss Account	Income and Expenditure Account (1)

[3]

(b) (i)

2005

Aug 1 Balance \$750

Explanation This represents the amount of subscriptions still outstanding from members for the financial year ended 31 July 2005 (1)

Double entry Credit subscriptions account for the year ended 31 July 2005 (1)

2006

July 31 Bank \$5850

Explanation This is the total amount of subscriptions received from members during the financial year ended 31 July 2006 (1)

Double entry Debit bank account (1)

2006

July 31 Income and Expenditure Account

Explanation This is the total subscriptions which relate to the financial year ended 31 July 2006 (1)

Double entry Credit Income and Expenditure Account (1)

(ii)

The significance of the \$900 shown at the end of the account  
 This represents the amount paid by members during the financial year ended 31 July 2006 but which relates to the following financial year. (1)  
 It will appear as a current liability in the Balance Sheet as at 31 July 2006. (1)

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**Question 3 Continued**

(c)

El Nil Sailing Club  
Receipts and Payments Account for the year ended 31 July 2006

			\$			\$
2005				2006		
Aug 1	Balance	b/d	6 300 (1)	July 31	Purchase of boat	13 000 (1)
2006					Repairs to boat	90 (1)
July 31	Proceeds of sale				Insurance	750 (1)
	of boat		280 (1)		General expenses	560 (1)
	Competition				Cost of competition	
	entrance fees		690 (1)		prizes	420 (1)
	Subscriptions		5 850 (1)			
	Balance	c/d	<u>1 700</u>			<u>14 820</u>
			<u>14 820</u>			
				2006		
				Aug 1	Balance	b/d 1 700 (1)O/F

[10]

[Total 21]

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**Question 4**

(a) (i) Matching **OR** Prudence

(ii) Matching

To ensure that the loss in value of fixed assets is spread over the period in which they are earning revenue.

**OR**

Prudence

To ensure that the profit is not overstated and the value of the fixed assets is not overstated.

[2]

(b) (i)

Motor vehicles account

2004		\$		2005		\$	
Oct 1	P. Drury -			Sept 30	Balance c/d	36 000	
	KUA 468	20 000	(1)				
	VWU 503	16 000	(1)				
		<u>36 000</u>				<u>36 000</u>	
2005				2006			
Oct 1	Balance b/d	36 000		Apr 1	Disposals	16 000	(1)
		<u>36 000</u>			(VWU 503)		
				Sept 30	Balance c/d	<u>20 000</u>	
						<u>36 000</u>	
2006		20 000					
Oct 1	Balance b/d		(1)				

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Question 4 Continued

(b) (ii)

Provision for depreciation of motor vehicles account

2005			\$	2005			\$
Sept 30	Balance	c/d	9 000	Sept 30	Profit & Loss		
					KUA 468	5 000	
					VWU 503	<u>4 000</u>	<u>9 000</u> (2)
			<u>9 000</u>				<u>9 000</u>
2006				2005			
Apr 1	Disposals		4 000 (2)	Oct 1	Balance	b/d	9 000 (1)
	(VWU 503)						O/F
Sept 30	Balance	c/d	10 000	2006			
				Sept 30	Profit & Loss		<u>5 000</u> (1)
			<u>14 000</u>				<u>14 000</u>
				2006			
				Oct 1	Balance	b/d	10 000 (1)
							O/F

[7]

(iii)

Disposal of motor vehicles account

2006		\$	2006		\$
Apr 1	Motor vehicles	16 000 (1)	Apr 1	Prov. for Dep.	4 000 (1)
		O/F			O/F
Sept 30	Profit & Loss	500 (1)		Remuera Traders	12 500 (1)
		O/F			
		<u>16 500</u>			<u>16 500</u>

[4]

+ (1) for dates



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**Question 4 Continued**

**Alternative presentation**

**(b) (i)**

Motor vehicles account

		Debit	Credit	Balance
		\$	\$	\$
2004				
Oct 1	P. Drury – KUA 468	20 000 (1)		20 000 Dr.
	VWU 503	16 000 (1)		36 000 Dr.
2006				
Apr 1	Disposals (VWU 503)		16 000 (1)	20 000 Dr.(1)

[4]

**(ii)**

Provision for depreciation of motor vehicles account

		Debit	Credit	Balance
		\$	\$	\$
2005				
Sept 30	Profit & Loss KUA 468 5 000 VWU 503 <u>4 000</u>		9 000 (2)	9 000 Cr.(1) O/F
2006				
Apr 1	Disposals (VWU 503)	4 000 (2)		5 000 Cr.
Sept 30	Profit & Loss		5 000 (1)	10 000 Cr.(1) O/F

[7]

**(iii)**

Disposal of motor vehicles account

		Debit	Credit	Balance
		\$	\$	\$
2006				
Apr 1	Motor vehicles	16 000 (1)		16 000 Dr.
				O/F
	Prov. for Dep.		4 000 (1)O/F	12 000 Dr.
	Remuera Traders		12 500 (1)	500 Cr.
Sept 30	Profit & Loss	000 (1)		0
				O/F

[4]

**+(1) for dates**

Continued/

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**Question 4 Continued**

(c) Entries in Profit and Loss Account for the year ended 30 September 2006

	\$		
Depreciation of motor vehicles	5 000	debit	(1) O/F
Profit on disposal of motor vehicle	500	credit	(1) O/F

[2]

[Total 20]

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## Question 5

(a)

Year ended 30 September 2006			
(i)	Current ratio	9100 : 7000	1.30 : 1 (1)
(ii)	Quick ratio	5200 : 7000	0.74 : 1 (1)
(iii)	Collection period for debtors	$\frac{5\ 200}{47\ 000} \times \frac{365}{1}$ (1)	41 days (1)
(iv)	Payment period for creditors	$\frac{4\ 200}{39\ 000} \times \frac{365}{1}$ (1)	40 days (1)

[6]

(b) All responses to be based on own figure calculations in (a)

Current ratio

Increase in current liabilities greater than the increase in current assets

Increase in bank overdraft

Increase in creditors

Decrease in stock

Decrease in debtors

Quick ratio

Greater proportion of current assets in form of stock

Increase in bank overdraft

Increase in creditors

Decrease in debtors

In each case any 1 correct point (1)

[2]

Continued/

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**Question 5 Continued**

**(c) All responses to be based on own figure calculations in (a)**

Collection period for debtors  
 Less efficient credit control  
 Allowing longer credit to encourage sales  
 Not allowing cash discounts

Payment period for creditors  
 Shortage of liquid funds  
 Knock-on effect of debtors taking longer to pay  
 Suppliers not allowing cash discounts

**In each case other suitable points accepted  
 In each case – any 2 points (1) each**

[4]

**(d) Problems of inter-firm comparison –**

Should compare with a business in same trade  
 Should compare with a business of approximately the same size  
 Should compare with a business of the same type (sole trader/partnership etc)  
 The accounts may be for 1 year only which will not show trends and may not be a typical year  
 The financial year may end on different dates and the period of time covered may be different  
 The businesses may operate different accounting policies  
 There may be differences which affect profitability and the items on the Balance Sheet  
 The accounts do not show non-monetary items, but these are important in the success of a business  
 It is not always possible to obtain all the information about a business in order to make a true comparison

**Or other suitable points**

**Any 3 correct points (2) each**

[6]

[Total 18]