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ACCOUNTING

0452/11

Paper 1

May/June 2019

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 **22** printed pages and **2** blank pages.

There are 10 parts to Question 1.

For **each** of the parts (a) to (j) there are four possible answers, **A**, **B**, **C** and **D**.

Choose the one you consider correct and place a tick (✓) in the box to indicate the correct answer.

- 1 (a) The employees of a business are highly skilled but this is not recorded in the financial statements of the business.

Which accounting principle is being applied?

A going concern

B money measurement

C prudence

D realisation

[1]

- (b) Khalid started a business on 1 April 2018 with a capital of \$90 000.

He provided the following information on 31 March 2019.

| | |
|--------------------------|--------|
| | \$ |
| non-current assets | 75 000 |
| current assets | 32 000 |
| current liabilities | 24 000 |
| drawings during the year | 19 000 |

What was the profit or loss for the year ended 31 March 2019?

A \$12 000 loss

B \$12 000 profit

C \$26 000 loss

D \$26 000 profit

[1]

- (c) How is cost of production calculated?

A direct materials + direct labour + direct expenses

B direct materials + direct labour + direct expenses + factory overheads

C direct materials + direct labour + direct expenses + factory overheads + decrease in work in progress

D direct materials + direct labour + direct expenses + factory overheads – decrease in work in progress

[1]

- (d) Lisa returned goods previously purchased from Tara.

How did Tara record this?

| | account debited | account credited |
|----------|-------------------|-------------------|
| A | Lisa | purchases returns |
| B | Lisa | sales returns |
| C | purchases returns | Lisa |
| D | sales returns | Lisa |

[1]

- (e) When preparing his financial statements for the year ended 30 April 2019 Tebogo recorded his opening inventory of \$6400 as \$4600 in error.

What was the effect of this error?

| | effect on gross profit for the year | | effect on profit for the year | | effect on capital at 30 April 2019 | |
|----------|-------------------------------------|-------------|-------------------------------|-------------|------------------------------------|-------------|
| | overstated | understated | overstated | understated | overstated | understated |
| A | ✓ | | ✓ | | ✓ | |
| B | | ✓ | | ✓ | | ✓ |
| C | ✓ | | | ✓ | | ✓ |
| D | | ✓ | ✓ | | ✓ | |

[1]

- (f) Amrik started a business on 1 January 2017 and purchased a machine costing \$18 000. He decided to depreciate the machine at 20% per annum using the reducing (diminishing) balance method. No depreciation was to be charged in the year of disposal.

The machine was sold for \$13 300 on 1 July 2018.

What was the profit or loss on the sale of the machine?

- A** loss \$1100
B loss \$4700
C profit \$1780
D profit \$2500

[1]

- (g) 'Financial information must be free from errors and bias.'

To which accounting objective does this refer?

- A** comparability
B relevance
C reliability
D understandability

[1]

- (h) Amelia rented premises to a tenant. At the end of Amelia's financial year the tenant had paid 2 months' rent in advance.

Which entries would Amelia make in her ledger?

- A** credit the rent payable account and carry down as a debit balance
B debit the rent payable account and carry down as a credit balance
C credit the rent receivable account and carry down as a debit balance
D debit the rent receivable account and carry down as a credit balance

[1]

- (i) John paid Tahir, a credit supplier, \$200 by cheque. This was credited to the account of Tarek, another credit supplier.

Which journal entry corrects this error?

| | | debit \$ | credit \$ |
|----------|----------------------------|-------------|--------------|
| A | suspense Tahir Tarek | 400 | 200 200 |
| B | Tahir Tarek | 200 | 200 |
| C | Tahir Tarek suspense | 200 200 | 400 |
| D | Tarek Tahir | 200 | 200 |

[1]

5

(j) A business provided the following information.

| | |
|-------------------|---------|
| | \$ |
| opening inventory | 36 000 |
| closing inventory | 24 000 |
| purchases | 360 000 |
| revenue | 480 000 |

What was the rate of inventory turnover?

- A 12.0 times
- B 12.4 times
- C 15.5 times
- D 16.0 times

[1]

[Total: 10]

- 2 Olivia is a trader. Sales and purchases are made on both cash and credit terms. Olivia maintains a full set of accounting records and prepares control accounts at the end of each month.

REQUIRED

- (a) Name the book of prime (original) entry which Olivia would use to obtain the following information when preparing her control accounts.

| | book of prime (original) entry |
|--|--------------------------------|
| returns to credit suppliers | |
| cheques received from credit customers | |
| contra entry | |
| bad debts written off | |

[4]

- (b) Complete the table by placing a tick (✓) in the correct column to indicate where each item would appear in Olivia's sales ledger control account. If the item does not appear place a tick (✓) in the 'no entry' column.

| | debit | credit | no entry |
|---|-------|--------|----------|
| credit sales | | | |
| cash sales | | | |
| cash refund to credit customer | | | |
| cash discount allowed by credit suppliers | | | |
| contra entry | | | |
| trade discount allowed to credit customers | | | |
| interest charged on credit customer's overdue account | | | |

[7]

- (c) State the meaning of the following terms.

- (i) Bad debt

.....
 [1]

- (ii) Bad debt recovered

.....
 [1]

(iii) Provision for doubtful debts

.....
 [1]

Olivia's financial year ends on 30 April.

On 30 April 2019 Olivia received \$200 in cash from Ben, a credit customer, in final settlement of the amount he owed. The balance of Ben's account was written off as irrecoverable.

REQUIRED

(d) Complete the following accounts in Olivia's ledger for the year ended 30 April 2019. Show any necessary year-end transfer.

Olivia
Ben account

| Date 2019 | Details | \$ | Date 2019 | Details | \$ |
|--------------|--------------|------------|--------------|---------|-------|
| <i>Jan 2</i> | <i>Sales</i> | <i>360</i> | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Bad debts account

| Date 2019 | Details | \$ | Date 2019 | Details | \$ |
|-----------------|----------------------|------------|--------------|---------|-------|
| <i>April 30</i> | <i>Total to date</i> | <i>384</i> | | | |
| | | | | | |
| | | | | | |
| | | | | | |

[4]

Olivia maintains a provision for doubtful debts of 3% of the trade receivables at the end of each financial year.

On 30 April 2018 the trade receivables amounted to \$13 500.

On 30 April 2019 the trade receivables amounted to \$12 800 after writing off Ben’s account.

REQUIRED

- (e) Prepare the provision for doubtful debts account for the year ended 30 April 2019. Balance the account and bring down the balance on 1 May 2019.

Olivia
Provision for doubtful debts account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

[4]

[Total: 22]

3 Kadar is a food wholesaler. He maintains a full set of accounting records and prepares a trial balance at the end of each financial year.

REQUIRED

(a) State **two** reasons why a trial balance is prepared.

- 1
-
- 2
-

[2]

(b) Name **three** types of error which are **not** revealed by a trial balance. Give an example of each.

- 1 Type of error
- Example
-
-
- 2 Type of error
- Example
-
-
- 3 Type of error
- Example
-
-

[6]

Kadar provided the following information at the end of his financial year on 31 March 2019.

| | \$ |
|---|---------|
| Revenue | 146 000 |
| Purchases | 137 300 |
| Sales returns | 1 400 |
| Carriage outwards | 2 970 |
| Fixtures and fittings (at cost) | 45 000 |
| Provision for depreciation of fixtures and fittings | 18 000 |
| Motor vehicle (at cost) | 16 850 |
| Discount allowed | 190 |
| Discount received | 230 |
| Trade payables | 14 600 |
| Trade receivables | 12 900 |
| Operating expenses | 17 190 |
| Rent payable | 5 200 |
| Commission receivable | 2 000 |
| Bank overdraft | 5 170 |
| Capital | 65 000 |
| Inventory 1 April 2018 | 12 000 |
| Inventory 31 March 2019 | 10 950 |

(c) Prepare the trial balance of Kadar at 31 March 2019.

Kadar
Trial Balance at 31 March 2019

| | Debit \$ | Credit \$ |
|---|-------------|--------------|
| Revenue | | |
| Purchases | | |
| Sales returns | | |
| Carriage outwards | | |
| Fixtures and fittings (at cost) | | |
| Provision for depreciation of fixtures and fittings | | |
| Motor vehicle (at cost) | | |
| Discount allowed | | |
| Discount received | | |
| Trade payables | | |
| Trade receivables | | |
| Operating expenses | | |
| Rent payable | | |
| Commission receivable | | |
| Bank overdraft | | |
| Capital | | |
| Inventory | | |
| | | |
| | | |
| | | |

[9]

Kadar purchased the motor vehicle on 30 March 2019. He entered the total amount paid in the motor vehicle account. The total paid consisted of the following.

| | |
|-----------------------|---------------|
| | \$ |
| cost of motor vehicle | 16 000 |
| 1 year's insurance | 420 |
| delivery charge | 350 |
| fuel | 80 |
| | <u>16 850</u> |

REQUIRED

- (d) State whether **each** cost is capital expenditure or revenue expenditure. Give a reason for your answers.

The first item has been completed as an example.

| cost | type of expenditure | reason |
|-----------------------|---------------------|---|
| cost of motor vehicle | <i>capital</i> | <i>This is the cost of purchasing a non-current asset which will be kept for over 12 months</i> |
| 1 year's insurance | | |
| delivery charge | | |
| fuel | | |

[6]

[Total: 23]

- 4 The YK Club was formed some years ago. In addition to providing sporting facilities for members, the club also has a shop selling sports clothing.

The following information was available for the year ended 31 January 2019.

| | | |
|--------------------------------|----|-----|
| | \$ | |
| On 1 February 2018 | | |
| Shop inventory | | 896 |
| Amount owing for shop supplies | | 420 |

| | | |
|------------------------------------|--|------|
| For the year ended 31 January 2019 | | |
| Payments for shop supplies | | 4150 |

| | | |
|--------------------------------|--|-----|
| On 31 January 2019 | | |
| Shop inventory | | 960 |
| Amount owing for shop supplies | | 470 |

All goods are marked up by 25%.

REQUIRED

- (a) Prepare the shop income statement for the year ended 31 January 2019 showing the revenue for the year.

YK Club
Shop Income Statement for the year ended 31 January 2019

| | \$ | \$ |
|-------|-------|-------|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

[5]

- (b) Complete the table to indicate how the following items would be recorded in the financial statements of the YK Club for the year ended 31 January 2019.

Some items may appear in more than one financial statement.

The first one has been completed as an example.

| | \$ | receipts and payments account \$ | income and expenditure account \$ | statement of financial position \$ |
|--|------|---|--|---|
| balance at bank on 1 February 2018 | 460 | 460 | | |
| insurance paid on 1 February 2018 for 18 months to 31 July 2019 | 1080 | | | |
| purchase of new sports equipment by cheque on 31 December 2018 | 3500 | | | |
| subscriptions received in January 2019 for the year ending 31 January 2020 | 350 | | | |
| accumulated depreciation of sports equipment at 31 January 2019 | 850 | | | |
| cost of sports equipment at 31 January 2019 | 8500 | | | |
| profit from club shop for the year ended 31 January 2019 (calculated in (a)) | ? | | | |
| bank overdraft on 31 January 2019 | 1250 | | | |

[11]

The treasurer is concerned that the overdraft of the YK Club is increasing each year. He has recommended that the club should hold fund-raising activities to reduce the club's bank overdraft.

REQUIRED

- (c) Suggest **two** other ways in which the bank overdraft of the club could be reduced.

1

2

[2]

[Total: 18]

PLEASE TURN OVER

- 5 Krishna has a secretarial agency. Her financial year ends on 30 April.

She provided the following information for the year ended 30 April 2019.

| | |
|---|--------|
| | \$ |
| Fees received from clients | 35 270 |
| Wages | 24 300 |
| Operating expenses | 4 260 |
| Rent and rates | 7 750 |
| Motor expenses | 720 |
| Commission receivable | 1 820 |
| Office fixtures and equipment at valuation 1 May 2018 | 18 900 |
| Motor vehicle at cost | 17 500 |
| Provision for depreciation of motor vehicle | 6 300 |

Additional information

- 1 At 30 April 2019
 - Clients owed fees totalling \$2150.
 - Commission receivable accrued amounted to \$60.
 - Rent, \$1200, was accrued.
 - Rates prepaid amounted to \$550.
- 2 Krishna lives in an apartment above the business premises. One quarter of the rent and rates relates to Krishna's apartment.
- 3 The office fixtures and equipment were valued at \$17 320 on 30 April 2019. No office fixtures and equipment were purchased or sold during the year.
- 4 The motor vehicle is to be depreciated at 20% per annum using the reducing (diminishing) balance method.

(b) Complete the following accounts in Krishna’s ledger for the year ended 30 April 2019. Close the accounts by balancing or by making an appropriate year-end transfer.

Krishna
Drawings account

| Date | Details | \$ | Date | Details | \$ |
|------------------|---------------------|-------|-------|---------|-------|
| 2019 April 30 | Total cash drawings | 9 150 | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Capital account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|---------------|-------------|--------|
| | | | 2018 May 1 | Balance b/d | 38 000 |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

[5]

Krishna is considering purchasing business premises costing \$80 000. She could invest a further \$40 000 as capital. The remaining \$40 000 would have to come from a 6% bank loan repayable after 5 years.

REQUIRED

(c) Explain **three** factors Krishna should consider when making a decision about purchasing these business premises.

1

.....

.....

2

.....

.....

3

.....

.....

[6]

[Total: 24]

- 6 ML Limited was formed some years ago. The company's share capital consists entirely of ordinary shares.

REQUIRED

- (a) Complete the table by placing a tick (✓) in the correct column to indicate whether **each** statement is true or false.

The first one has been completed as an example.

| | True | False |
|---|------|-------|
| The reward given to ordinary shareholders for investing in the company is known as a dividend. | ✓ | |
| The amount of issued shares for which payment has been received by the company from shareholders is known as paid-up share capital. | | |
| Ordinary shareholders receive a fixed percentage of the profit each year. | | |
| In the event of the company being wound up the ordinary shares are the last to be repaid. | | |
| Ordinary shareholders are personally liable for the debts of the company. | | |
| Any ordinary share dividend paid during the financial year is entered in the statement of changes of equity irrespective of the year to which it relates. | | |

[5]

The financial year of ML Limited ends on 31 December. The following information is available.

| | \$ |
|---|---------|
| At 1 January 2018 | |
| Ordinary share capital | 200 000 |
| Retained earnings | 16 500 |
| General reserve | 8 000 |
| Dividends paid during the year ended 31 December 2018 | |
| Final dividend for the year ended 31 December 2017 | 8 000 |
| Interim dividend for the year ended 31 December 2018 | 6 000 |
| Profit for the year ended 31 December 2018 | 28 000 |

On 31 December 2018 it was decided to make a transfer to general reserve of \$3000.

REQUIRED

(b) Prepare a statement of changes in equity for the year ended 31 December 2018.

ML Limited
Statement of Changes in Equity for the year ended 31 December 2018

| | Ordinary share capital \$ | Retained earnings \$ | General reserve \$ | Total \$ |
|-----------------------------|------------------------------------|----------------------------|--------------------------|-------------|
| On 1 January 2018 | | | | |
| Profit for the year | | | | |
| Dividend paid – final | | | | |
| interim | | | | |
| Transfer to general reserve | | | | |
| On 31 December 2018 | | | | |

[6]

(c) Calculate the percentage (%) total ordinary share dividend for the year ended 31 December 2018.

.....

.....

..... [2]

The directors of ML Limited want to expand the company and need to raise \$100 000. They are considering issuing either 6% preference shares or 5% debentures.

REQUIRED

(d) State **three** features of preference shares.

1

.....

2

.....

3

.....

[3]

(e) State **three** features of debentures.

- 1
-
- 2
-
- 3
-
- [3]

(f) Complete the table to indicate the effect of raising the funds from an issue of 5% debentures on 1 January 2019.
Where there is no effect place a tick (✓) in the 'no effect' column.

The first one has been completed as an example.

| | increase \$ | decrease \$ | no effect |
|------------------------------------|----------------|----------------|-----------|
| effect on balance at bank | 100 000 | | |
| effect on non-current liabilities | | | |
| effect on working capital | | | |
| effect on equity at 1 January 2019 | | | |
| effect on annual profits | | | |

[4]

[Total: 23]

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