

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

**MARK SCHEME for the May/June 2007 question paper**

<b>0452 ACCOUNTING</b>	
<b>0452/03</b>	Paper 3, maximum raw mark 100

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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.

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- 1 (a) Work can be shared between several people  
 Easier for reference as same type of accounts are kept together  
 Easier to introduce checking procedures

Or other suitable point

Any 1 point [1]

[1]

(b)

Purchases Ledger  
 Oman El Gamal account

2007	\$			2007	\$		
Mar 19	Bank	429	[1]	Mar 8	Purchases	440	[1]
	Discount recd	11	[1]				
		<u>440</u>				<u>440</u>	

Mohammed El Wakil account

2007	\$			2007	\$		
Mar 24	Purchase returns	128	[1]	Mar 21	Purchases	304	[1]
26	Cash	110	[1]			<u>304</u>	
31	Balance c/d	66	[1]				
		<u>304</u>		2007			
				Apr 1	Balance b/d	66	[1] O/F

+ [1] Dates

[9]

(b) Alternative presentation

Omar El Gamal account

2007	Debit	Credit	Balance
	\$	\$	\$
Mar 8	Purchases	440 [1]	440 Cr
19	Bank		11 Cr
	Discount recd	11 [1]	0

Mohammed El Wakil account

2007	Debit	Credit	Balance
	\$	\$	\$
Mar 21	Purchases	304 [1]	304 Cr
24	Purchase returns	128 [1]	176 Cr
26	Cash	110 [1]	66 Cr
			[2]C/F [1]O/F

+ [1] Dates

[9]

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(c)

Nominal Ledger Purchases account			
2007		\$	
Mar 31	Total from purchases journal	744	[1]
	Cash	990	[1]

  

Purchases returns account			
2007		\$	
Mar 31	Total from returns journal	128	[1]

[3]

(c) Alternative presentation

Purchases account			
2007		Debit	Credit
		\$	\$
Mar 31	Total from purchases journal	744	[1]
	Cash	990	[1]
			Balance
			\$
			744 Dr
			1 734 Dr

  

Purchases returns account			
2007		Debit	Credit
		\$	\$
Mar 31	Total from returns journal		128
			[1]
			Balance
			\$
			128 Cr

[3]

- (d) Assist in the location of errors  
 Provide instant totals of debtors/creditors  
 Proves the arithmetical accuracy of sales/purchases ledgers  
 Enable the Balance Sheet to be prepared quickly  
 Provide a summary of the transactions relating to debtors/creditors  
 Provide an internal check on sales/purchases ledgers – may reduce fraud

Or other relevant points

Any 2 points [1] each

[2]

(e)

	Item	Entry in sales ledger control account
(ii)	Cheques received from debtors	credit [1]
(iii)	Trade discount allowed to debtors	no entry [1]
(iv)	Contra item transferred to purchases ledger	credit [1]

[3]

[Total: 18]

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- 2 (a) (i) So that the profits for the year are not over-stated [1]  
 (ii) So that the debtors in the Balance Sheet are shown at a realistic amount [1]
- (b) Matching principle [1]

(c) (i)

J.Ukata account

2006	\$		2006	\$	
Feb 4 Sales	900	} [1]	Mar 1 Bank	873	[1]
Mar 1 Sales	80		Discount	27	[1]
	<u>980</u>		2007		
			Jan 31 Bad debts	<u>80</u>	[1]
				<u>980</u>	

(ii)

Bad debts account

2007	\$		2007	\$	
Jan 31 J.Ukata	<u>80</u>	[1]	Jan 31 Profit & Loss	<u>80</u>	[1] O/F
	<u>80</u>			<u>80</u>	

(iii)

Bad debts recovered account

2007	\$		2006	\$	
Jan 31 Profit & Loss*	<u>35</u>	[1]	Dec 31 Cash	<u>35</u>	[1]
	<u>35</u>			<u>35</u>	

(iv)

Provision for doubtful debts account

2007	\$		2006	\$	
Jan 31 Balance c/d	200	[1]	Feb 1 Balance b/d	150	[1]
	<u>200</u>		2007		
			Jan 31 Profit & Loss	<u>50</u>	[1]
				<u>200</u>	
			2007		
			Feb 1 Balance b/d	200	[1]O/F

\* Alternatively, transfer to bad debts account. The transfer from bad debts to profit & loss would then be \$45.

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(c) Alternative presentation

(i)

J.Ukata account

	Debit	Credit	Balance	
2006	\$	\$	\$	
Feb 4 Sales	900		900	Dr
Mar 1 Sales	80		980	Dr
Bank		873	107	Dr
Discount		27	80	Dr
2007				
Jan 31 Bad debts		80	0	

(ii)

Bad debts account

	Debit	Credit	Balance	
2007	\$	\$	\$	
Jan 31 J.Ukata	80		80	Dr
Profit & Loss		80	0	

(iii)

Bad debts recovered account

	Debit	Credit	Balance	
2006	\$	\$	\$	
Dec 31 Cash		35	35	Cr
2007				
Jan 31 Profit & Loss*	35		0	

(iv)

Provision for doubtful debts account

	Debit	Credit	Balance	
2006	\$	\$	\$	
Feb 1 Balance		150	150	Cr
2007				
Jan 31 Profit & Loss		50	200	Cr

[12]

\* Alternatively, transfer to bad debts account. The transfer from bad debts to profit & loss would then be \$45.

(d)

	Item	Overstated	Understated
(ii)	Net profit for the year ended 31 January 2007	\$ 50 [1]	\$ No effect [1]
(iii)	Total of current assets in Balance Sheet at 31 January 2007	200 O/F [1]	No effect [1]

[4]

[Total: 19]

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3 (a)

Jamil and Sara Suliman  
Trading Account for the year ended 30 April 2007

	\$	\$	\$	
Sales			30 000	[1]
Less cost of sales				
Opening stock		5 000		[1]
Purchases		<u>26 000</u>		[1]
		31 000		
Less Closing stock – Stock remaining	4 500			[1]
Stock lost	2 500			[2] C/F
				[1] O/F
		<u>7 000</u>		
Gross profit			<u>24 000</u>	
			<u>6 000</u>	(2)

Horizontal format acceptable [8]

(b) Calculation of net profit –

	\$	
Gross profit	6000	O/F
Less Expenses	<u>4600</u>	
Net profit	<u>1400</u>	[1] O/F

[1]

(c) Calculation of partners' share of the residual net profit/loss –

	\$	\$		
Net profit		1400	[1]	O/F
Interest on capital – Jamil	2000			
Sara	1000	3000	[1]	
		(1600)		
Share of loss – Jamil	800			
Sara	800	(1600)	[1] O/F	

[3]

(d)

Current accounts

		Jamil	Sara			Jamil	Sara	
		\$	\$			\$	\$	
2006				2006				
May 1	Balance b/d	200		May 1	Balance b/d		600	[1]
2007				2007				
Apr 30	Drawings	3100	2800	Apr 30	Interest on capital	2000	1000	[1]
	Share of Loss	<u>800</u>	<u>800</u>		Balances c/d	<u>2100</u>	<u>2000</u>	
		<u>4100</u>	<u>3600</u>			<u>4100</u>	<u>3600</u>	
2007								
May 1	Balances b/d	2100	2000					[1] O/F

In all cases the marks are for suitable wording and two figures

Alternatively allow two separate "T" accounts [5]

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**(d) Alternative presentation**

## Jamil Current account

	Debit	Credit	Balance	
	\$	\$	\$	
2006				
May 1 Balance	200		200	Dr
2007				
Apr 30 Drawings	3100		3300	Dr
Share of loss	800		4100	Dr
Interest on Capital		2000	2100	Dr

## Sara Current account

	Debit	Credit	Balance	
	\$	\$	\$	
2006				
May 1 Balance		600	600	Cr
2007				
Apr 30 Drawings	2800		2200	Dr
Share of loss	800		3000	Dr
Interest on Capital		1 000	2000	Dr

Opening balances

**[1] for suitable wording and two figures**

Drawings

**[1] for suitable wording and two figures**

Share of loss

**[1] O/Fs for suitable wording and two figures**

Interest on capital

**[1] for suitable wording and two figures**

Closing balances

**[1] O/Fs for two figures****[5]****(e) (i)** To enter goodwill on the books

account(s) to be debited	\$	account(s) to be credited	\$
Goodwill	20 000 <b>[1]</b>	Jamil Capital	10 000 <b>[1]</b>
		Sara Capital	10 000 <b>[1]</b>

**(ii)** To write off the goodwill

account(s) to be debited	\$	account(s) to be credited	\$
Jamil Capital	8000 <b>[1]</b>	Goodwill	20 000 <b>[1]</b>
Sara Capital	8000 <b>[1]</b>		
Fatima Capital	4000 <b>[1]</b>		

**[7]****[Total: 24]**

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4 (a)

Peter Mpho  
Balance Sheet at 31 January 2007

	\$	\$	\$	
Fixed Assets				
Premises at cost			90 000	
Equipment at valuation			<u>47 000</u>	[1]
			137 000	
Current Assets				
Stock		17 500		
Debtors (19 200 + 150)		19 350		[1]
Petty cash		<u>100</u>		
		36 950		[1]O/F
Current Liabilities				
Creditors	29 000			
Bank overdraft (300 – 1050)	750	[1]		
Accrual	<u>200</u>	[1]		
		<u>29 950</u>		[1]O/F
Working Capital			<u>7 000</u>	[1]O/F
			144 000	
Capital				
Opening Balance			145 000	
*Net Profit (13 500 – 200 + 600 – 3000 – 1050 + 150)			<u>10 000</u>	[1]O/F
	[1] [1] [1] [1] [1]		155 000	
Drawings (10 400 + 600)			<u>11 000</u>	[1]
			144 000	

Horizontal format acceptable

[14]

\*Calculation of net profit

Original figure		13 500
Add goods for own use	600	
carriage outwards	<u>150</u>	750
		14 250
Less wages owing	200	
revaluation of equipment	3000	
bank charges	<u>1050</u>	4 250
		<u>10 000</u>

- (b) (ii) Reliability [1]  
 (iii) Comparability [1]  
 (iv) Understandability [1]

[3]

(c) Financial information is only relevant if it can be used –

To confirm or correct prior expectations about past events  
 To assist in forming, revising or confirming expectations about the future  
 As the basis for financial decisions

Explanation of any 1 point [2]

[2]

[Total: 19]



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- 5 (a) (i) Current ratio  $70\,000 : 40\,000 = 1.75 : 1$  [1]
- (ii) Quick ratio  $(70\,000 - 34\,000) : 40\,000 = 0.90 : 1$  [1]
- (iii) Collection period for debtors  $\frac{29\,000}{275\,000} \times \frac{365}{1}$  [1] = 39 days [1]
- (iv) Payment period for creditors  $\frac{40\,000}{465\,000} \times \frac{365}{1}$  [1] = 32 days [1] [6]
- (b) Does not include stock in the calculation [1]  
**Either**  
 Stock is not regarded as a liquid asset – a buyer has to be found and then the money collected. Some stock may prove to be unsaleable. [1]  
**Or**  
 The quick ratio shows whether the business would have any surplus liquid funds if all the current liabilities were paid immediately from the liquid assets. [1] [2]
- (c) Satisfied if (a) (ii) is higher than the ratio for 2005  
 Not satisfied if (a) (ii) is lower than the ratio for 2005 [1]
- (d) Increase in current liabilities greater than the increase in current assets  
 Increase in creditors and no significant change in current assets  
 Decrease in debtors and no significant change in current liabilities  
 Decrease in bank and no significant change in current liabilities  
 Decrease in stock and no significant change in current liabilities  
**Or suitable response based on own figure calculation in (a) (i)**  
**Any 1 acceptable point [2]** [2]
- (e) (i) Not satisfied if (a) (iii) is more than the ratio for 2005  
 Satisfied if (a) (iii) is less than the ratio for 2005 [1]
- (ii) Debtors are taking 9 days longer to pay than the previous year  
**Or suitable explanation based on O/F answer to (a) (iii)** [2]
- (f) Debtors are taking longer to pay so this may have a knock-on effect and mean that the creditors may have to wait longer for their accounts to be paid.  
**Or suitable explanation based on O/F answer to (a) (iii) and (a) (iv)** [2]
- (g) Rate of stock turnover [1]

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- (h) The accounts may be for 1 year only and not show trends  
The accounts may not be for a typical year  
The financial year may end at a different point in the trading cycle  
The businesses may operate different accounting policies e.g. depreciation  
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 [1] each**

**[3]**

**[Total: 20]**