UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2008 question paper

0452 ACCOUNTING

0452/03   Paper 3, maximum raw mark 100

This mark scheme is published as an aid to teachers and candidates, 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.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the May/June 2008 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 (a) Ascertain the true bank balance at a certain date
Assist in detecting fraud and embezzlement
Identify any "stale" cheques
Demonstrate that any differences between the cash book balance and that on the statem
are due to genuine reasons

Or other suitable reason

Any two reasons (1) each [2]

(b) Cash Book (bank columns only)

2008			$		2008			$	
May 1	Balance	b/d	2073	**(1)**	May 1	Insurance		360	**(1)**
						Lobatse Traders			
						(dishon. chq.)		314	**(1)**
						Bank charges		11	**(1)**
						Correction of error		90	**(1)**
						Balance	c/d	1298	
			2073					2073	
May 1	Balance	b/d	1298	**(1)O/F**					

[6]

(c) Bank Reconciliation Statement at 30 April 2008

	$		$	
Balance shown on bank statement			1250	**(1)**
Add amounts not yet credited – Cash			500	**(1)**
			1750	
Less cheques not yet presented – Ghanzi & Co	390	**(1)**		
bank error	62	**(2)**	452	
Balance shown in cash book			1298	**(1)O/F**

[6]

Alternative presentation

Bank Reconciliation Statement at 30 April 2008

	$		$	
Balance shown in cash book			1298	**(1)O/F**
Add cheques not yet presented – Ghanzi & Co	390	**(1)**		
bank error	62	**(2)**	452	
			1750	
Less amounts not yet credited – Cash			500	**(1)**
Balance shown on bank statement			1250	**(1)**

[6]

(d) $1298 **(1)O/F**
Asset **(1)** [2]

(e) Current ratio
(6322 + 5670 + 100 + 1298 **O/F**) : 7250 **(1)O/F**
= 13390 **O/F** : 7250
= 1.85 : 1 **(1)O/F**

(f) 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]**

[Total: 20]

2 **(a)** Ensures that profits are not overstated (prudence)
Ensures that debtors are shown in balance sheet at more realistic amount (prudence)
Application of matching principle as the amount of sales unlikely to be paid for are treated as an expense of that particular year

Or other suitable reason

Any one reason (1)   **[1]**

(b) 2007 February 1 Balance
The provision for doubtful debts in existence at that date brought down from the previous financial year. **(2)**

2008 January 31 Profit and loss
The amount transferred to the profit and loss account representing the surplus provision no longer required. **(2)**

$600 shown at the end of the account
The new provision for doubtful debts carried forward to the next financial year. **(2)**   **[6]**
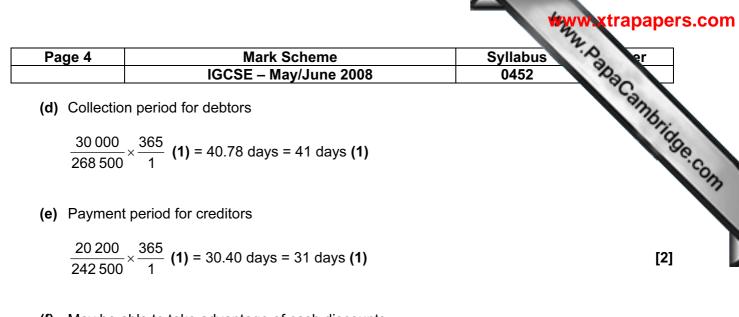
(c) If debtors delay payment the business may be forced to delay paying its creditors unless liquid funds are available.

If debtors pay within the set time the business may be able to pay its creditors within the set time without any significant impact on the bank balance.

Or other suitable comment

Any one reason (2)   **[2]**

(d) Collection period for debtors

$$\frac{30\,000}{268\,500} \times \frac{365}{1} \text{ (1)} = 40.78 \text{ days} = 41 \text{ days (1)}$$

(e) Payment period for creditors

$$\frac{20\,200}{242\,500} \times \frac{365}{1} \text{ (1)} = 30.40 \text{ days} = 31 \text{ days (1)}$$ **[2]**

(f) May be able to take advantage of cash discounts
Improve the relationship with suppliers

Or other suitable comment

Any two points (1) each **[2]**

(g)   Subscriptions account

2007			$		2008			$	
Apl 1	Balance	b/d	320	**(1)**	Mar 31	Cash		8720	**(1)**
2008									
Mar 31	Balance	c/d	400	**(1)**					
	Income & Expenditure**(1)**		8000	**(1)**O/F					
			8720					8720	
					2008				
					Apl 1	Balance	b/d	400	**(1)**

+ (1) dates
[7]

Alternative presentation

Subscriptions account

		Debit		Credit		Balance		
2007		$		$		$		
Apl 1	Balance	320	**(1)**			320	Dr	
2008								
Mar 31	Cash			8720	**(1)**	8400	Cr	
	Income & Expenditure **(1)**	8000	**(1)**O/F			400	Cr	**(2)**

+ (1) dates
[7]

[Total: 22]

3 (a)

Journal

		Debit $		Credit $	
1	Stationery	20	(1)		
	Abdul Current			20	(1)
2	Suspense	300	(1)		
	Purchases			300	(1)
3	Suspense	100	(1)		
	Bad Debts			50	(1)
	Bad Debts Recovered			50	(1)
4	Amina Capital	2200	(1)		
	Amina Current			2200	(1)

[9]

(b)

Suspense account

2008		$		2008		$	
Apl 30	Purchases	300	(1)	Apl 30	Difference on trial		
	Bad debts	50	(1)		balance	400	(1)
	Bad debts recovered	50	(1)				
		400				400	

[4]

Alternative presentation

Suspense account

		Debit $		Credit $		Balance $	
2008							
Apl 30	Difference on trial balance			400	(1)	400	Cr
	Purchases	300	(1)			100	Cr
	Bad debts	50	(1)			50	Cr
	Bad debts recovered	50	(1)			0	

[4]

(c) Abdul and Amina Mahmoud
Statement of corrected net profit for the year ended 30 April 2008

$
Net profit before corrections   12 900

Effect on net profit

		Increase	Decrease	
		$	$	
Error	1		20	
	2	300 **(1)**		
	3	100 **(1)**		
	4	No effect **(1)**		
		400	20	380

Corrected net profit   13 280   **(1)O/F**

[4]

(d) Increase gross profit e.g. increase profit margin, increase selling prices etc.
Reduce expenses e.g. reduce staffing levels, reduce advertising etc.
Increase other income e.g. rent out part of premises, earn more discount

Or other acceptable point

Any two points (1) each [2]

[Total: 19]

4 (a) (i) Stocks are valued at the lower of cost and net realisable value.

(ii) Prudence

(b) Gideon Yeboah
Manufacturing Account for the year ended 31 March 2008

	$		$	
Cost of raw materials				
Opening stock of raw materials	21 230	**(1)**		
Purchases	255 620	**(1)**	276 850	
Less Closing stock of raw materials			19 410	**(1)**
			257 440	
Direct factory wages (194 060 + 4800) **(1)**			198 860	
Prime cost			456 300	**(1)**
Factory general expenses (133 910 – 210)	133 700	**(1)**		
Depreciation factory machinery				
(103 000 + 21 000 – 92 000)	32 000	**(1)**	165 700	
			622 000	**(1)O/F**
Add opening work in progress			11 680	**(1)**
			633 680	
Less closing work in progress			12 130	**(1)**
Cost of production			621 550	**(1)O/F**

Horizontal format acceptable [11]

(c) Gideon Yeboah
Trading Account for the year ended 31 March 2008

	$		$	
Sales			825 000	**(1)**
Less Cost of sales				
Opening stock of finished goods	46 900	**(1)**		
Cost of production	621 550	**(1)O/F**		
Purchases of finished goods	13 200	**(1)**		
	681 650			
Less Closing stock of finished goods	53 170	**(1)**	628 480	
Gross profit			196 520	**(1)O/F**

Horizontal format acceptable [6]

[Total: 19]

5 (a) Ensures that the loss in value of motor vehicles is spread over the period in which earning revenue.

(b) (i)

Motor vehicles account

2006		$		2006		$	
Jan 1	Ansari Road			Dec 31	Balance c/d	60 000	
	Motors	60 000	**(1)**				
		60 000				60 000	
2007				2007			
Jan 1	Balance b/d	60 000		Jun 30	Disposals	20 000	**(1)**
				Dec 31	Balance c/d	40 000	**(1)O/F**
		60 000				60 000	
2008							
Jan 1	Balance b/d	40 000	**(1)O/F**				

(ii)

Provision for depreciation of motor vehicles account

2006		$		2006		$	
Dec 31	Balance c/d	12 000		Dec 31	Profit & loss	12 000	**(1)**
		12 000				12 000	
2007				2007			
Jun 30	Disposals	4 000	**(2)**	Jan 1	Balance b/d	12 000	**(1)O/F**
Dec 31	Balance c/d	14 400	**(1)O/F**	Dec 31	Profit & loss	6 400	**(2)O/F**
		18 400				18 400	
				2008			
				Jan 1	Balance b/d	14 400	**(1)O/F**

(iii)

Disposal of motor vehicle account

2007		$		2007		$	
Jun 30	Motor vehicles	20 000	**(1)O/F**	Jun 30	Prov. for Dep.	4 000	**(1)O/F**
Dec 31	Profit & loss **(1)**	1 000	**(1)O/F**		Apollo Traders	17 000	**(1)**
		21 000				21 000	

+ (1) dates

[18]

Alternative presentation

(b) (i) Motor vehicles account

2006		Debit $		Credit $		Balance $	
Jan 1	Ansari Road Motors	60 000	**(1)**			60 000	Dr
2007							
Jun 30	Disposals			20 000	**(1)**	40 000	Dr**(2)O/F**

(ii) Provision for depreciation of motor vehicles account

2006		Debit $		Credit $		Balance $	
Dec 31	Profit & loss			12 000	**(1)**	12 000	Cr**(1)O/F**
2007							
Jun 30	Disposals	4 000	**(2)**			8 000	Cr
Dec 31	Profit & loss			6 400	**(2)O/F**	14 400	Cr**(2)O/F**

(iii) Disposal of motor vehicle account

2007		Debit $		Credit $		Balance $	
Jun 30	Motor vehicles	20 000	**(1)O/F**			20 000	Dr
	Prov. for Dep.			4 000	**(1)O/F**	16 000	Dr
	Apollo Traders			17 000	**(1)**	1 000	Cr
Dec 31	Profit & loss **(1)**	1 000	**(1)O/F**			0	

+ (1) dates

[18]

[Total: 20]