

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

0452 ACCOUNTING

0452/21

Paper 2, maximum raw mark 120

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- 1 Robbie McDonald
Income Statement (Trading and Profit and Loss Account) for the year ended
30 September 2010

	\$	\$	\$
Revenue (sales)			216 000 (1)
Less Cost of sales			
Opening inventory (stock)		19 500 (1)	
Purchases	176 000 (1)		
Less Goods for own use	<u>1 900 (1)</u>	<u>174 100</u>	
		193 600	
Less Closing inventory (stock)		<u>20 800 (2)C/F</u>	
			<u>(1)O/F</u>
			<u>172 800 (1)O/F</u>
Gross profit			43 200 (2)
Bad debts recovered			160 (1)
Decrease in provision for doubtful debts (372 – 352)			<u>20 (2)</u>
			43 380
Less Wages		28 200 (1)	
Property tax and insurance (8900 (1) – 600 (1))		8 300	
Administration expenses		4 410 (1)	
Bank interest		1 550 (1)	
Depreciation Motor vehicles (20% × 4800)		960 (1)	
Equipment (3000 – 2340)		<u>660 (1)</u>	
Loss for the year (Net loss)			<u>44 080</u>
			<u>700 (1)O/F</u>

Horizontal format acceptable

[20]

[Total: 20]

- 2 (a) Assist in the location of errors
Provide instant totals of trade receivables (debtors) and trade payables (creditors)
Proves the arithmetical accuracy of the sales/purchases ledgers
Enable a balance sheet to be prepared quickly
Provide a summary of the transactions relating to trade receivables (debtors) and trade payables (creditors)
Provide an internal check on sales/purchases ledgers – may reduce fraud

Or other relevant points

Any 2 points (1) each

[2]

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(b)

Suzie Chow
Sales ledger control account
\$

2010		2010	
Sept 1	Balance	21 976 (1)	Sept 1 Balance
30	Sales	22 800 (1)	30 Bank
	Bank (Dis. Chq)	610 (1)	Discount allowed
			Sales returns
			Bad debts
			Contra entry
			Balance c/d
		<u>45 386</u>	<u>22 415 (1)</u>
			<u>45 386</u>
2010			
Oct 1	Balance b/d	22 415 (1)O/F	

[11]

Alternative presentation

Sales ledger control account			
	Debit	Credit	Balance
	\$	\$	\$
2010			
Sept 1	Balances	21 976 (1)	54 (1)
30	Sales	22 800 (1)	21 922 Dr
	Bank (Dis. Chq.)	610 (1)	44 722 Dr
	Bank		45 332 Dr
	Discount allowed	21 860 (1)	23 472 Dr
	Sales returns	488 (1)	22 984 Dr
	Bad debts	391 (1)	22 593 Dr
	Contra entry	100 (1)	22 493 Dr
		78 (1)	22 415 Dr
			(2) C/F
			(1) O/F

[11]

(c) A contra entry is when an account in the sales ledger is set against an account in the purchases ledger. (1) Such an entry is made when a supplier is also a customer of the business and has an account in both ledgers. (1) [2]

(d) The sales ledger control account acts as a check on the sales ledger. If there is an error in the sales ledger it will not be revealed by a control account prepared from the individual accounts in that ledger. [2]

(e) $\frac{22\,415 \text{ O/F}}{275\,000} \times \frac{365}{1} = 29.75 \text{ days} = 30 \text{ days (1)O/F}$ [2]

(f) Offer cash discount for early payment
Charge interest on overdue accounts
Improve credit control
Refuse further supplies on credit until any outstanding balance is paid
Invoice discounting and debt factoring

Or other relevant points**Any 3 points (1) each**

[3]

[Total: 22]

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- 3 (a) (i) Nominal (general) ledger (1)
- (ii) Purchases ledger (1)
- (iii) Nominal (general) ledger (1) [3]

(b)

		Karnail Singh Rent account				
		\$			\$	
2010				2009		
July 31	Total paid	1430	(1)	Aug 1	Balance b/d	260 (1)
	Balance c/d	420	(1)	2010		
				July 31	Income Statement (1) (Profit & Loss)	<u>1590 (1)</u>
		<u>1850</u>				<u>1850</u>
				2010		
				Aug 1	Balance b/d	420 (1)O/F

[6]

Alternative presentation

		Karnail Singh Rent account		
		Debit	Credit	Balance
		\$	\$	\$
2009				
Aug 1	Balance		260 (1)	260 Cr
2010				
July 31	Total paid	1430 (1)		1170 Dr
July 31	Income statement (1) (Profit & Loss)		1590 (1)	420 Cr (2)C/F (1)O/F

[6]

- (c) The accruals (matching) principle states that revenue of the accounting period must be matched against the costs of the same period. (1)
- The rent relating to the financial year ended 31 July 2010 is transferred to the income statement (profit and loss account). (1) The rent paid during the year relating to the previous year is not included but the rent owing at the end of the year is included. (1) [3]

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- (d) Bank manager
 Assessment of prospects of any requested loan/overdraft being repaid when due
 Assessment of prospects of any interest on loan/overdraft being paid when due
 Assessment of the security available to cover any loan/overdraft

Lenders

- Assessment of prospects of any requested loan being repaid when due
 Assessment of prospects of any interest on loan being paid when due
 Assessment of the security available to cover any loan

Creditor for goods

- Assessment of the liquidity position
 Identifying how long the business takes to pay creditors
 Identifying future prospects of the business
 Identifying what credit limit is reasonable

Manager (if any)

- Assessment of past performance
 Basis of future planning
 Control the activities of the business
 Identifying areas where corrective action is required

Or other suitable interested persons e.g. employees, government bodies, competitors, take-over bidders etc

TWO business people to be identified (1) each

ONE acceptable reason required in each case (1) each [4]

- (e) (i) Non-financial aspects
 Accounts only record information which can be expressed in monetary terms. (1)
 This means that there are many important factors which influence the performance of a business which will not appear in the financial statements (final accounts) e.g. quality of management, goodwill, skill of workforce etc. (1)
- (ii) Historical cost
 Transactions are always recorded at the actual cost. (1)
 This means that it can be difficult to compare transactions which have taken place at different times because of the effect of inflation. (1) [4]

[Total: 20]

- 4 (a) Authorised share capital is the maximum amount of share capital a company is allowed to issue. (2)

Paid-up share capital is the total amount of capital a company has received from its shareholders. (2) [4]

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(b) (i) $4\% \times 25\,000$ shares of \$1 each (1) = \$1000 (1)

(ii) $3\% \times \$15\,000$ (1) = \$450 (1)

(iii) $5\% \times 60\,000$ shares of \$0.50 (1) = \$1500 (1)

[6]

(c)

	Income Statement Profit & Loss Account	Appropriation Account	Balance Sheet	
Debenture interest payable	✓	No entry	✓	(2)
Ordinary share dividend payable	No entry	✓	✓	(2)

[4]

(d)

	\$	
Ordinary share capital	30 000	
Preference share capital	25 000	
Debentures	<u>15 000</u>	
	<u>70 000</u> (1)	

[1]

(e) $\frac{11840}{70\,000} \times \frac{100}{1} = 16.91\%$ (1) **O/F** (1)

[2]

(f) If the return on capital employed increases it indicates that the company is employing its resources more efficiently. (2)

[Total: 19]

5 (a) To compensate for the fact that she does more work than Samuel.

Or

To recognise the work that she does in the partnership.

[2]

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(b) Samuel and Martha Mavuso
Balance Sheet at 31 October 2010

	\$	\$	\$
Non-current (fixed) assets at cost			105 950
Less Provision for depreciation			<u>9 350</u>
			96 600 (1)
Current assets		23 562	
Less Current liabilities		<u>18 400</u>	
Working capital (net current assets)			<u>5 162</u> (1)
			<u>101 762</u>
Financed by			
	Samuel	Martha	Total
	Mavuso	Mavuso	
Capital accounts	<u>60 000</u>	<u>40 000</u> (1)	100 000
Current accounts			
Opening balance	(1 091)	223 (1)	
Interest on capital	2 400	1 600 (1)	
Share of profit	<u>4 122</u>	<u>2 748</u> (1)	
	<u>5 431</u>	<u>4 571</u>	
Less Drawings	3 100	4 900 (1)	
Interest on drawings	<u>93</u>	<u>147</u> (1)	
	<u>3 193</u>	<u>5 047</u>	
	<u>2 238</u>	<u>(476)</u> (1)O/Fs	
			<u>1 762</u>
			<u>101 762</u> (1)O/F

Horizontal format acceptable

Calculation of current account balances outside balance sheet acceptable if presented in the form of ledger accounts [10]

(c) $23\ 562 : 18\ 400$ (1) = $1.28 : 1$ (1) [2]

(d) Injection of capital
Long term loan
Sale of surplus non-current (fixed) assets
Reduction in drawings

Or other suitable points

Any 2 points (1) each [2]

(e) Does not include inventory (stock) in the calculation. (1)

Either

Inventory (stock) is not regarded as a liquid asset – a buyer has to be found and then the money collected. Some goods 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: 18]

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6 (a) Gross profit = 247 600 – 163 100 = 84 500 (1)

$$\frac{84\,500}{247\,000} \times \frac{100}{1} = 34.13\% \text{ (1)} \quad [2]$$

- (b) Increase in selling prices
 Obtaining cheaper supplies
 Reduction the rate of trade discount allowed to customers
 Increase in the rate of trade discount received from suppliers
 Passing on increased costs to customers
 Different product mix

Or other suitable reasons

Any 2 points (2) each

[4]

(c)

		Waseem Shah Suspense account			
		\$		\$	
2010			2010		
July 31	Bank	1520	July 31	Difference on trial balance	1240 (1)
				Rent	90 (1)
				Balance c/d	<u>190 (1)</u>
		<u>1520</u>			<u>1520</u>
2010					
Aug 1	Balance b/d	190			(1)O/F [5]

Alternative presentation

		Waseem Shah Suspense account			
		Debit	Credit	Balance	
		\$	\$	\$	
2010					
July 31	Difference on trial balance		1240 (1)	1240	Cr
	Rent		90 (1)	1330	Cr
	Bank	1520 (1)		190	Dr
					(2)C/F
					(1)O/F [5]

(d) **Either**

Error Number 2 (1)

Explanation This is an error of commission (1) and does not affect the balancing of the trial balance (1)

Or

Error Number 3 (1)

Explanation This is an error of principle (1) and does not affect the balancing of the trial balance (1) [3]

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(e)

Waseem Shah

Statement of corrected profit for the year ended 31 July 2010

			\$	
	Profit for the year (net profit) before corrections		33 000	
		Increase in profit \$	Decrease in profit \$	
Error 1			90	
2	No effect (2)			
3			1 150 (2)	
4	No effect (2)			
		——— ———	<u>1 240</u>	<u>1 240</u>
	Corrected profit for the year		<u>31 760</u> (1)O/F	[7]

[Total: 21]