CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International General Certificate of Secondary Education

MARK SCHEME for the March 2015 series

0452 ACCOUNTING

0452/22 Paper 2, maximum raw mark 120

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, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 **(a)** Bad debts
Amounts owing to a business **(1)** which will not be paid by the credit customer **(1)**

Bad debts recovered
Amounts received **(1)** from a credit customer after the amount was written off as a bad debt **(1)**

Provision for doubtful debts
An estimate **(1)** of the amount which a business will lose because of bad debts **(1)** **[6]**

(b) Reduce credit sales/sell on a cash basis
Obtain references from new credit customers
Fix a credit limit for each customer
Improve credit control
Issue invoices and monthly statements promptly
Refuse further supplies until outstanding balance is paid
Any 2 points (1) each **[2]**

(c) A provision for doubtful debts ensures that
the profit for the year is not overstated **(1)**
the trade receivables are not overstated **(1)** **[2]**

(d) Nisha Sharma
Journal

		Debit $	Credit $	
1	Bad debts AX Limited Amount owed by AX Limited written off	150	 150	**(1)** **(1)** **(1)**
2	Provision for doubtful debts Income statement Reduction in provision for doubtful debts	21	 21	**(1)** **(1)** **(1)**

[6]

(e)

	Overstated $	Understated $
Bad debts written off	*150*	
Bad debts recovered		123 **(2)**
Adjustment to provision for doubtful debts		21 **(2)OF**

(1) for direction and (1) for amount for each item **[4]**

[Total: 20]

2 (a) $\frac{\$640}{1} \times \frac{100}{80} = \$800$ **(1)** **[1]**

(b) Any returns must be recorded at the price which the customer was originally charged for those goods. **(1)** **[1]**

(c)

February	Transaction	Document
4	Payment	Cheque counterfoil **(1)**
8	Purchases	Invoice **(1)**
14	Purchases returns	Credit note **(1)**

[3]

(d)

Nirmal Singh
Ansari Road account

		$				$	
2015				2015			
Feb 14	Returns	280	**(1)**	Feb 1	Balance b/d	560	**(1)**
26	Bank	546	**(1)**	8	Purchases	640	**(1)**
	Discount	14	**(1)**				
28	Balance c/d	360					
		1200				1200	
				2015			
				Mar 1	Balance b/d	360	**(1)O/F**

T Marks account

		$				$	
2015				2015			
Feb 4	Bank	200	**(1)**	Feb 1	Balance b/d	200	**(1)**
28	Balance c/d	690		10	Bank (dis chq)	200	**(1)**
				19	Purchases	480	**(1)**
				28	Interest	10	**(1)**
		890				890	
				2015			
				Mar 1	Balance b/d	690	**(1)O/F**

+ (1) dates **[13]**

[Total: 18]

3 (a)

Amla Khan
Rates and insurance account

Date	Details	$	$	Date	Details	$	$
2014				2014			
Jan 1	Balance b/d			Jan 1	Balance b/d		
	Insurance		700 **(1)**		Rates		480 **(1)**
Dec 31	Bank - rates		2560 **(1)**	Dec 31	Income statement		
	Insurance		2400 **(1)**		Rates	1920 **(1)**	
					Insurance	2300 **(1)**	4220
					Balance c/d		
					Rates	160	
					Insurance	800	960
			5660				5660
2015							
Jan 1	Balance b/d						
	Rates	160					
	Insurance	800	960 **(2) CF** **(1) OF**				

+ (1) dates **[9]**

(b) Current assets **(1)**
Both the rates and insurance are prepaid at the end of the year **(1)** **[2]**

(c)

Amla Khan
Rent receivable account

Date	Details	$	Date	Details	$
2014			2014		
Dec 31	Income statement	1200 **(1)**	Oct 1	Bank	800 **(1)**
			Dec 31	Balance c/d	400
		1200			1200
2015					
Jan 1	Balance b/d	400 **(1)OF**			

+ (1) dates **[4]**

(d) Current assets **(1)**
Rent receivable is owed by the tenant **(1)** **[2]**

[Total: 17]

4 **(a)** Gross profit = 164 000 – 125 542 = 38 458 **(1)**

$$\left.\frac{38\,458}{164\,000}\right\}\textbf{(1)} \times \frac{100}{1} = 23.45\%$$ **(1)** **[3]**

(b) Decrease in selling price
Increase in trade discount allowed to customers
Selling at lower mark-up
Increase in cost price
Reduction in trade discount allowed by suppliers
Not taking advantage of bulk buying
Any 2 reasons (1) each **[2]**

(c) Profit for the year = 38 458 **OF** – 24 748 = 13 710 **(1)OF**

$$\left.\frac{13\,710\ \textbf{OF}}{164\,000}\right\}\textbf{(1)} \times \frac{100}{1} = 8.36\%$$ **(1)OF** **[3]**

(d) (18 150 + 15 300 + 120) : (10 960 + 7 150)
= 33 570 : 18 110 **(1) (whole formula)**
= 1.85 : 1 **(1)** **[2]**

(e) Current assets almost twice the current liabilities
Can meet the current liabilities from the current assets
Slightly lower than the "benchmark" of 2:1
Appears to be adequate
Comments to be based on answer to (d)
Any 2 comments (1) each **[2]**

(f) (15 300 + 120) : (10 960 + 7 150)
= 15 420 : 18 110 **(1) (whole formula)**
= 0.85: 1 **(1)** **[2]**

(g) Increase in bank overdraft/change from debit to credit bank balance
Purchase of non-current assets
Repayment of long-term loan
Increase in inventory
Increase in dividends paid
Any 1 reason (1) **[1]**

(h) $\frac{15\,300}{154\,400} \times \frac{365}{1}$ **(1) (whole formula)**
= 36.17 = 37 days **(1)** **[2]**

(i) Unsatisfied **(1)** – if answer to **(h)** is 31 days or over
Or Satisfied **(1)** – if answer to **(h)** is 30 days or less

Taking 7 days more than credit period allowed
Have to wait longer than expected to receive the money
May have knock-on effect for paying trade payables
May mean shortage of funds available for other things
Or appropriate comments based on OF answer to (h)
Any 1 comment (1) **[2]**

[Total: 19]

5 (a)

LWS Limited
Income Statement for the year ended 30 November 2014

	$	$	
Fees from clients (199 500 **(1)** + 4500 **(1)**)	204 000		
Other income	17 300	221 300	
General expenses	36 140		
Wages (98 200 **(1)** + 12 600 **(1)**)	110 800		
Insurance (3450 **(1)** – 690 **(1)**)	2 760		
Depreciation			
Equipment (20% x (65 000 – 23 400)	8 320 **(1)**		
Fixtures and fittings			
((10% × 24 000)**(1)** + (10% × 7200 × 5/12) **(1)**)	2 700	160 720	
Profit for the year		60 580	**(1)OF**

[10]

(b)

LWS Limited
Statement of Changes in Equity for the year ended 30 November 2014

Details	Share capital $	General reserve $	Retained earnings $	Total $	
On 1 December 2013	350 000	95 000	13 200	458 200	
Profit for the year			60 580	60 580	**(1)OF**
Dividend paid – interim			(17 500)	(17 500)	**(1)**
Dividend paid – final			(35 000)	(35 000)	**(1)**
Transfer to general reserve		12 000	(12 000)		**(1)**
Share issue	50 000			50 000	**(1)**
On 30 November 2014	400 000	107 000	9 280	516 280	**(1)OF**

[6]

(c) Long term loans
Debenture holders are not members of the company
Do not carry voting rights
Carry a fixed rate of interest
Interest is not dependent on the company's profit
Are often secured on the assets of the company
Debenture holders are repaid before the shareholders in a winding-up
Any 2 features (1) each **[2]**

(d) Carry a fixed rate of dividend
Dividend may not be paid if there is not enough profit
Dividend is paid before ordinary share dividend
Preference shareholders are members of the company
Do not usually carry voting rights
Capital is repaid before ordinary share capital in a winding-up
Are not secured on the assets of the company
Any 2 features (1) each **[2]**

(e) No prior claims on the profit
No fixed interest or dividend to pay
All the shares will rank equally for dividend
No prior claims on the assets in a winding-up
No fixed date for repayment
Any 2 points (1) each **[2]**

[Total: 22]

6 **(a)** Additional finance is available
Additional knowledge, skills and experience are available
The risks are shared
The losses are shared
The responsibilities are shared
Discussions can take place before decisions are taken
Any 2 advantages (1) each **[2]**

(b) To avoid misunderstandings and disagreements in the future **(1)** **[1]**

(c) Ben and Tom Panesar
Profit and Loss Appropriation Account for the year ended 31 January 2015

		$		$
Profit for the year				27 920
Interest on drawings	Ben	490	}	
	Tom	1 040	}**(1)**	1 530
				29 450
Interest on capital	*Ben			
	3% × 90 000 × 6/12	1 350	**(1)**	
	3% × 100 000 × 6/12	1 500	**(1)**	
		2 850		
	Tom			
	3% × 60 000	1 800	**(1)**	
		4 650		
Partnership salary	Tom			
	(3000 **(1)** + 8000 **(1)**)	11 000		15 650
Residual profit				13 800
Share of profit	Ben	9 200	**(1)OF**	
	Tom	4 600	**(1)OF**	
				13 800

[8]

*OR 3% x 90 000 2 700 **(1)**
3% x 10 000 × 6/12 150 **(1)**

(d)

Ben and Tom Panesar
Statement of Financial Position at 31 January 2015

	$		$		$	
Assets						
Non-current assets						
Premises (cost)					95 000	
Machinery and equipment (book value)					46 500	
					141 500	**(1)**
Current assets						
Inventory					28 750	
Trade receivables					30 360	
Bank					5 870	
					64 980	**(1)**
Total assets					206 480	
Capital and liabilities						
	Ben		Tom		Total	
Capital accounts	100 000		60 000		160 000	**(1) both**
Current accounts						
Interest on loan			600	**(1)**		
Interest on capital	2 850		1 800	**(1)OF (both)**		
Salary			11 000	**(1)OF**		
Profit share	9 200		4 600	**(1)OF (both)**		
	12 050		18 000			
Drawings	9 800		20 800	**(1) (both)**		
Interest on drawings	490		1 040	**(1) (both)**		
	10 290		21 840			
Closing balance	1 760	**(1)OF**	(3 840)	**(1)OF**		
					(2 080)	
					157 920	
Non-current liabilities						
Loan – Tom					15 000	**(1)**
Current liabilities						
Trade payables					32 170	
Other payables					1 390	
					33 560	**(1)**
Total liabilities					206 480	

[13]

[Total: 24]

Alternate presentation of current accounts.

Current accounts

			Ben	Tom				Ben	Tom
			$	$				$	$
2015					2015				
Jan 31	Drawings	**(1)**	9 800	20 800	Jan 31	Interest on loan	**(1)OF**		600
	Interest on Drawing	**(1)**	490	1 040		Interest on capital	**(1)OF**	2 850	1 800
	Balance c/d		1 760			Salary	**(1)**		11 000
						Profit share	**(1)OF**	9 200	4 600
						Balance c/d			3 840
			12 050	21 840				12 050	21 840

+ (1) OF for each balance if shown in statement of financial position making a total of (8) for the current accounts