MARK SCHEME for the May/June 2014 series

0452 ACCOUNTING

0452/21	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)   Nasir Manufacturing Limited
                    Manufacturing Account for the year ended 31 January 2014

	$	$
Cost of materials used		
Opening inventory of raw materials		23 500
Purchases of raw materials		124 600 **(1)**
		148 100
Closing inventory of raw materials		26 100
		122 000 **(1)**
Direct wages (136 000 + 2 200)		138 200 **(1)**
Direct expenses		16 300 **(1)**
Prime cost		276 500 **(1)**
Factory overheads		
Wages of factory supervisors	31 400 **}**	
General factory expenses	19 208 **}(1)**	
Rates & insurance (¾ × (6 360 – 120))	4 680 **(2)**	
Depreciation Plant & machinery		
(20% × (94 000 – 33 840)	12 032 **(1)**	
Loose tools		
(2 650 + 310 – 2 740)	220 **(1)**	67 540
		344 040 **(1)OF**
Opening work in progress		11 020 **(1)**
		355 060
Closing work in progress		12 060 **(1)**
Cost of production		343 000 **(1)OF**

Horizontal format acceptable   **[14]**

(b)   Nasir Manufacturing Limited
                    Income Statement for the year ended 31 January 2014

	$	$	$
Revenue			539 000
Cost of sales			
Opening inventory finished goods		18 100 **(1)**	
Cost of production		343 000 **(1)OF**	
Purchases finished goods	16 900 **(1)**		
Less Returns	200 **(1)**	16 700	
		377 800	
Less Closing inventory finished goods		19 300 **(1)**	358 500
Gross profit			180 500 **(1)OF**

Horizontal format acceptable   **[6]**

                                                                                              [Total: 20]

2 (a)

Leroy Smith
Stationery account

		$				$	
2013				2013			
April 1	Balance b/d	144	**(1)**	Aug 1	Drawings	26	**(1)**
June 30	Bank	368	**(1)**	2014			
				Mar 31	Income statement	394	**(1)**
					Balance c/d	92	**(1)**
		512				512	
2014							
April 1	Balance b/d	92	**(1)**				

Three column running balance format acceptable [6]

(b) The business entity principle has been applied when the stationery taken for personal use was transferred from the stationery account to the drawings account. [2]

(c)

Leroy Smith
Rent and rates account

		$				$	
2013				2013			
April 1	Balance (rates) b/d	380	**(1)**	April 1	Balance (rent) b/d	260	**(1)**
2014				2014			
Mar 31	Bank (rates)	2470	} **(1)**	Mar 31	Income statement	5400	**(1)**
	Bank (rent)	3380	}		Balance (rates) c/d	570	**(1)**
		6230				6230	
2014							
April 1	Balance b/d	570	**(1)**				

Three column running balance format acceptable [6]

(d) The accruals principle has been applied when only the expense for the year was transferred to the income statement. [2]

(e) Capital receipts
Amounts received which do not form part of the day-to-day trading activities. **(1)**

Capital expenditure
Money spend on acquiring improving and installing non-current assets. **(1)**

Revenue receipts
Amounts received in the day-to-day trading activities from revenue and other items of income. **(1)**

Revenue expenditure
Money spent on running a business on a day-to-day basis. **(1)** [4]

(f)

non-current assets at 31 March 2014		profit for the year ended 31 March 2014	
Overstated	Understated	Overstated	Understated
✓ **(1)**		✓ **(1)**	

[2]

[Total: 22]

3 **(a) (i)** The straight line method of depreciation uses the same amount of depreciation each year. **[1]**

    (ii) This method is used where each year is expected to benefit equally from the use of the asset. **[1]**

  (b) (i) The reducing balance method of depreciation uses the same percentage rate of depreciation each year, but it is calculated on the book value at the end of each year. **[1]**

    (ii) This method is used where the greater benefits from the use of the asset will be gained in the early years of its life. **[1]**

  (c) 1 Computer equipment – reducing balance method **(1)**
    2 Buildings – straight line method **(1)**
    3 Motor vehicle – reducing balance method **(1)** **[3]**

  (d) (i) The asset is valued at the end of each year and the difference between the opening and closing value is the depreciation for the year. **[1]**

    (ii) This method is used where it is impractical or difficult to maintain detailed records of the asset. **[1]**

   (iii) Loose tools, packing cases, small items of equipment
      Or other suitable example
      Any 1 example (1) **[1]**

(e)

Tony Yeo
Equipment account

		$			$	
2013			2013			
May 1	Balance b/d	8 600	Oct 31	Disposals	2 000	**(1)**
Nov 1	New2You	3 400 **(1)**	2014			
		_____	Apl 30	Balance c/d	10 000	
		12 000			12 000	
2014						
May 1	Balance b/d	10 000 **(1)OF**				**[3]**

Provision for depreciation of equipment account

		$			$	
2013			2013			
Oct 31	Disposals	800 **(2)**	May 1	Balance b/d	3 260	
2014			2014			
Apl 30	Balance c/d	4 120	Apl 30	Income statement		
				20% × 6600	1 320 **(1)**	
				20% × 3400 × ½	340 **(1)**	
		4 920			4 920	
			2014			
			May 1	Balance b/d	4 120 **(1)OF**	**[5]**

Disposal of equipment account

		$			$	
2013			2013			
Oct 31	Equipment	2 000 **(1)OF**	Oct 31	Prov for dep	800	**(1)OF**
				Cash	750	**(1)**
			2014			
			Apl 30	Income statement	450	**(1)OF**
		2 000			2 000	**[4]**

Three column running balance format acceptable

[Total: 22]

4 (a) $30 000 × 5% = $1 500 **(1)**

$50 000 × 6% = $3 000 **(1)**

$70 000 × 8% = $5 600 **(1)**   **[3]**

(b) To indicate that part of the profit is for long term use within the company and is not available for distribution.   **[1]**

(c)

	$	$		
Profit before interest and dividends		18 600		
Less Debenture interest	1 500		**(1)**	
Preference share dividend	3 000		**(1)**	
Ordinary share dividend	5 600		**(1)**	
Transfer to general reserve	4 000	14 100	**(1)**	
Profit retained in the year		4 500	**(1)OF**	**[5]**

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(d)   LWS Ltd
                     Extract from Statement of Financial Position at 30 April 2014
                                              $
  Capital and reserves
  140 000 Ordinary shares of $0.50 each   70 000 **}**
  50 000 6% Preference shares of $1 each   50 000 **}(1)**
  General reserve   4 000 **(1)**
  Retained profits (7 500 **(1)** + 4 500 **(1)OF**)   12 000   **[4]**

(e) Non-current liabilities   **[1]**

(f) **(i)** Current liabilities   **[1]**

   (ii) $750   **[1]**

                                                                                [Total: 16]

5 **(a)** To ensure that the totals of the trial balance agree **(1)**
         To allow draft financial statements to be prepared **(1)**   **[2]**

(b)   Uzma Khan
                                                            Journal

		Debit $	Credit $	
1	Suspense	270		**(1)**
	Rent		270	**(1)**
	Correction of error of transposition			**(1)**
2	Drawings	400		**(1)**
	Wages		400	**(1)**
	Correction of error, drawings debited to wages			**(1)**
3	Discount allowed	43		**(1)**
	Suspense		43	**(1)**
	Correction of error, discount not transferred to ledger			**(1)**
4	Mona	200		**(1)**
	Suspense	1800		**(1)**
	Amina		2000	**(1)**
	Correction of error, receipt from Amina $2000 entered as $200 in Mona's account			**(1)**

		Debit $	Credit $	
4	**Alternative presentation**			
	Mona	200		**(1)**
	Suspense		200	**}**
	Suspense	2000		**} (1)**
	Amina		2000	**(1)**
	Correction of error, receipt from Amina $2000 entered as $200 in Mona's account			**(1)**

                                                                                    [13]

(c)

Error	Effect on profit for the year		
	Overstated $	Understated $	No effect
2		400 **(2)**	
3	43 **(2)**		
4			No effect **(2)**

                                                                                    [6]

                                                                            [Total: 21]

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6 (a)

Ratio	Year ended 31 March 2014	
percentage of gross profit to revenue (sales)	31.11 %	**(2)**
percentage of profit for the year to revenue (sales)	7.78 %	**(2)OF**
current ratio	1.09 : 1	**(2)**
quick ratio	0.69 : 1	**(2)**

[8]

Calculations

Percentage of gross profit to revenue

$$\frac{450\,000 - 310\,000 \ \textbf{(1)}}{450\,000} \times \frac{100}{1} = 31.11\% \ \textbf{(1)}$$

Percentage of profit for the year to revenue

$$\frac{140\,000 \ \textbf{O/F} - 105\,000 \ \textbf{(1)OF}}{450\,000} \times \frac{100}{1} = 7.78\% \ \textbf{(1)OF}$$

Current ratio
(21 500 + 100 + 37 400) : (36 800 + 12 200 + 5 000) **(1)** = 1.09 : 1 **(1)**

Quick ratio
(100 + 37 400) : (36 800 + 12 200 + 5 000) **(1)** = 0.69 : 1 **(1)**

(b) Increase in selling price
Reduction in trade discount allowed to customers
Selling at a higher mark-up
Decrease in cost price
Increase in trade discount allowed by suppliers
Taking advantage of bulk buying
Or other suitable reason based on answer to (a)
Any 2 reasons (1) each [2]

(c) Year ended 31 March 2013 **(1)**
In 2013 the expenses were 17.85% of revenue: in 2014 the expenses were 23.33% of revenue. **(2)**
Or suitable answer based on answers to (a) [3]

(d)

	Increase	Decrease	No effect
Cheque paid to credit supplier			✓ **(1)**
Goods taken for own use		✓ **(1)**	
Purchase of non-current asset on credit		✓ **(1)**	

[3]

(e) Unsatisfied **(1)**
The ratio of liquid assets to current liabilities has fallen from 0.90:1 to 0.69:1. **(1)**
She cannot pay immediate liabilities from liquid assets. **(1)**
Or suitable answer based on answer to (a)   [3]

[Total: 19]