

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

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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]

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2 (a) $\frac{\$640}{1} \times \frac{100}{80} = \800 (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		
	<u>1200</u>		<u>1200</u>
		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)
	<u>890</u>		<u>890</u>
		2015	
		Mar 1 Balance b/d	690 (1)O/F

+ (1) dates

[13]

[Total: 18]

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3 (a)

Amla Khan			
Rates and insurance account			
		\$	\$
2014			2014
Jan 1	Balance b/d		Jan 1
	Insurance	700 (1)	Balance b/d
			Rates
			480 (1)
Dec 31	Bank - rates	2560 (1)	Dec 31
	Insurance	2400 (1)	Income statement
			Rates
			1920 (1)
			Insurance
			<u>2300 (1)</u>
			4220
			Balance c/d
			Rates
			160
			Insurance
			<u>800</u>
			<u>960</u>
		<u>5660</u>	<u>5660</u>
2015			
Jan 1	Balance b/d		
	Rates	160	
	Insurance	<u>800</u>	
		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			
		\$	\$
2014			2014
Dec 31	Income statement	1200 (1)	Oct 1
			Bank
			800 (1)
			Dec 31
			Balance c/d
			<u>400</u>
		<u>1200</u>	<u>1200</u>
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]

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

$$\frac{38\,458}{164\,000} \times \frac{100}{1} = 23.45\% \quad (1)$$

- (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**

$$\frac{13\,710}{164\,000} \times \frac{100}{1} = 8.36\% \quad (1)OF$$

[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]

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- (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]

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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	<u>17 300</u>	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% x 24 000) (1) + (10% x 7200 x 5/12) (1))	<u>2 700</u>	<u>160 720</u>
Profit for the year		<u>60 580 (1)OF</u>

[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]

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(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]

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- 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
		<u> </u>	<u>29 450</u>
Interest on capital	*Ben		
	3% × 90 000 × 6/12	1 350 (1)	
	3% × 100 000 × 6/12	1 500 (1)	
		<u>2 850</u>	
	Tom		
	3% × 60 000	1 800 (1)	
		<u>4 650</u>	
Partnership salary	Tom		
	(3000 (1) + 8000 (1))	<u>11 000</u>	<u>15 650</u>
Residual profit			<u>13 800</u>
Share of profit	Ben	9 200 (1)OF	
	Tom	<u>4 600 (1)OF</u>	
			<u>13 800</u>

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

[8]

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(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
			<u>141 500 (1)</u>
Current assets			
Inventory			28 750
Trade receivables			30 360
Bank			5 870
			<u>64 980 (1)</u>
Total assets			<u>206 480</u>
Capital and liabilities			
	Ben	Tom	Total
Capital accounts	<u>100 000</u>	<u>60 000</u>	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)	
	<u>12 050</u>	<u>18 000</u>	
Drawings	9 800	20 800 (1) (both)	
Interest on drawings	490	1 040 (1) (both)	
	<u>10 290</u>	<u>21 840</u>	
Closing balance	<u>1 760 (1)OF</u>	<u>(3 840) (1)OF</u>	<u>(2 080)</u>
			<u>157 920</u>
Non-current liabilities			
Loan – Tom			<u>15 000 (1)</u>
Current liabilities			
Trade payables			32 170
Other payables			1 390
			<u>33 560 (1)</u>
Total liabilities			<u>206 480</u>

[13]

[Total: 24]

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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				Interest on	
	Drawing	(1) 490	1 040		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
		<u>12 050</u>	<u>21 840</u>			<u>12 050 21 840</u>

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