



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER



ACCOUNTING **0452/22**
Paper 2 **February/March 2016**
1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
DO NOT WRITE IN ANY BARCODES.

Answer **all** questions.
You may use a calculator.

Where layouts are to be completed, you may not need all the lines for your answer.
The businesses mentioned in this Question Paper are fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [] at the end of each question or part question.

This document consists of **20** printed pages.

- 1 Abhinav maintains a petty cash book using the imprest system. The imprest amount of \$120 is restored on the first day of each month.

The petty cashier entered the transactions in the petty cash book for the first week of February 2016 in the total column of the petty cash book as shown on the opposite page. He was then taken ill and was away from the office for the rest of the month.

The following transactions took place.

| | | \$ |
|----------|--|-------|
| February | 10 Received refund from stationery supplier for overcharge on 7 February | 4.00 |
| | 13 Paid train fare | 9.50 |
| | 15 Paid Office Supply Limited, a credit supplier | 29.00 |
| | 21 Paid taxi fare | 9.90 |
| | 26 Paid window cleaner | 17.00 |

REQUIRED

- (a) Complete the entries for the transactions on 4 February and 7 February in Abhinav's petty cash book on the page opposite.

Enter the transactions for 10 February to 26 February in the petty cash book.

Balance the petty cash book on 29 February and bring down the balance on 1 March 2016.

[10]

The petty cash book is printed on the next page.

Abhinav – Petty Cash Book

| Total received | Date | Details | Total paid | Postage and stationery | Travel | Cleaning expenses | Ledger accounts |
|----------------|-------|---------------------------|------------|------------------------|--------|-------------------|-----------------|
| \$ | 2016 | | \$ | \$ | \$ | \$ | \$ |
| 24.00 | Feb 1 | Balance b/d | | | | | |
| 96.00 | | Bank | | | | | |
| | 4 | Stamps | 14.00 | | | | |
| | 7 | Copy paper and cartridges | 33.00 | | | | |
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- (b) (i) State the amount which would have been received on 1 March 2016 when the petty cash was restored to the imprest amount.

.....[1]

- (ii) State the double entry for restoring to the imprest amount.

| debit | credit |
|-------|--------|
| | |

[2]

- (c) Show the entries which would be made in the postage and stationery account in February 2016.

It is **not** necessary to close the account.

Abhinav
Postage and stationery account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
| | | | | | |

[2]

- (d) Name the accounting principles which Abhinav ignored in **each** of the following.

- (i) Abhinav decided that the profit would increase if he changed the method of depreciation on fixtures from the straight line method to the reducing (diminishing) balance method.

.....[1]

- (ii) Abhinav decided that the retirement of the manager would adversely affect the business, so he reduced the profit for the year by \$5000.

.....[1]

- (iii) Abhinav recorded a sale of goods to Wahid who had seen goods on display in the shop window and promised to return the following week with the cash.

.....[1]

- (iv) Abhinav intends to trade for several years but decided to record his motor vehicle at the possible sale value rather than the book value.

.....[1]

[Total: 19]

- 2 The cash book of Aireville Limited was balanced on 31 December 2015 and showed an overdraft of \$3420. On the same date, the bank statement showed an overdraft of \$1800.

A comparison of the cash book and the bank statement revealed the following.

| | \$ |
|---|------|
| 1 Items appearing only on the bank statement | |
| Bank charges | 190 |
| Dishonoured cheque, PB Limited | 330 |
| 2 Items appearing only in the cash book | |
| Cash sales paid into bank 28 December 2015 | 1560 |
| Cheque paid to M Raja, a credit supplier | 2700 |
| 3 Debit side of the cash book being undercast | 1000 |

REQUIRED

- (a) Update the cash book of Aireville Limited.
Bring down the updated bank balance on 1 January 2016.

Aireville Limited
Cash book (bank columns only)

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-----------------------------|--------------------|-------------|
| | | | <i>2016</i> <i>Jan 1</i> | <i>Balance b/d</i> | <i>3420</i> |
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[4]

(b) Prepare a bank reconciliation statement for Aireville Limited at 31 December 2015.

Aireville Limited
Bank Reconciliation Statement at 31 December 2015

| | \$ |
|-------|-------|
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[6]

The financial year of Aireville Limited ends on 31 December.

The following information is available.

| | \$ |
|--|---------|
| At 1 January 2015 | |
| Ordinary share capital – 600 000 shares of \$0.50 each | 300 000 |
| General reserve | 24 000 |
| Retained earnings | 45 000 |
| During the year ended 31 December 2015 | |
| Issue of ordinary shares – 100 000 shares of \$0.50 each | 50 000 |
| Payment of final dividend relating to the financial year ended 31 December 2014 | 25 000 |
| Payment of interim dividend relating to the financial year ended 31 December 2015 | 15 000 |
| At 31 December 2015 | |
| Profit for the year | 49 000 |
| Transfer to general reserve | 10 000 |

REQUIRED

(c) Prepare the statement of changes in equity for the year ended 31 December 2015.

Aireville Limited
Statement of Changes in Equity for the year ended 31 December 2015

| | Ordinary share capital \$ | General reserve \$ | Retained earnings \$ | Total \$ |
|-------|------------------------------------|--------------------------|----------------------------|-------------|
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[7]

The profits of Aireville Limited have decreased over the last few years and the directors have decided on a policy of modernisation. The directors considered raising the extra funds required from the issue of debentures but decided to issue additional ordinary shares instead.

REQUIRED

(d) Suggest **two** disadvantages to the ordinary shareholders of issuing debentures instead of ordinary shares.

- 1
-
- 2
- [2]

[Total: 19]

- 3 Daksha is a trader. Her financial year ends on 31 January. She does not maintain a full set of accounting records but was able to provide the following information at 1 February 2015.

| | \$ | |
|-------------------------------|--------|-------|
| Premises at cost | 90 000 | |
| Fixtures and fittings at cost | 22 000 | |
| Trade receivables | 2 750 | |
| Trade payables | 2 160 | |
| Other payables | 330 | |
| Inventory | 3 000 | |
| Bank | 1 940 | debit |
| Long-term loan | 20 000 | |
| Capital | 97 200 | |

During the year ended 31 January 2016:

- Capital introduced amounted to \$12 000
- Drawings amounted to \$4 200
- Fixtures and fittings costing \$5 200 were purchased
- A motor vehicle costing \$8 000 was purchased
- A further long-term loan of \$10 000 was obtained

In addition to providing this information, Daksha compared her assets and liabilities on 31 January 2016 with those on 1 February 2015 and found:

| | \$ |
|------------------------------------|-------|
| Trade receivables had increased by | 1 150 |
| Trade payables had decreased by | 210 |
| Other payables amounted to | 160 |
| Other receivables amounted to | 327 |
| Bank balance had reduced by | 2 300 |
| Petty cash amounted to | 100 |

Inventory had increased by 10%.

On 31 January 2016 it was decided to:

- 1 Create a provision for doubtful debts of 3% of trade receivables.
- 2 Provide for depreciation of fixtures and fittings and the motor vehicle at 20% per annum (based on cost of assets held at the end of the financial year).

REQUIRED

- (a) Prepare a statement of affairs at 31 January 2016 showing the **total** capital at that date.

- (b) Prepare the capital account of Daksha for the year ended 31 January 2016 to show the profit or loss for the year.

Daksha
Capital account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
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[5]

[Total: 20]

Question 4 is on the next page.

4 The Lodi Sports Club was formed some years ago.

The club has 150 members. The annual subscription is \$100.

The club rents a sports centre at a monthly rent of \$300.

A few years ago the club took out a bank loan of \$5000 at 4% per annum interest.

The amounts received and paid during the year ended 31 January 2016 were as follows.

| | |
|---|-------|
| | \$ |
| Subscriptions: for the year ended 31 January 2015 (2 members) | 200 |
| for the year ended 31 January 2016 (140 members) | 14000 |
| for the year ending 31 January 2017 (5 members) | 500 |
| Rent for the year ended 31 January 2016 | 3600 |
| Rent for the year ending 31 January 2017 | 300 |
| General expenses | 1454 |
| Insurance | 1550 |
| Purchase of new sports equipment | 7200 |
| Proceeds of sale of old sports equipment (book value \$400) | 275 |
| Bank interest and repayment of one quarter of the loan | 1400 |

REQUIRED

- (a) Prepare the receipts and payments account for the year ended 31 January 2016. Balance the account and bring down the balance on 1 February 2016.

Lodi Sports Club
Receipts and Payments Account for the year ended 31 January 2016

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-----------------------------|--------------------|------------|
| | | | <i>2015</i> <i>Feb 1</i> | <i>Balance b/d</i> | <i>210</i> |
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- (b) Calculate the total subscriptions which will appear in the income and expenditure account for the year ended 31 January 2016.

.....
[2]

- (c) Complete the following table to show the entries in the statement of financial position on 31 January 2016.

| | Statement of financial position | |
|-----------------------|---------------------------------|-------------|
| | section | amount (\$) |
| Bank loan | | |
| Interest on bank loan | | |
| Rent | | |

[6]

[Total: 17]

5 Mohan is a trader. His financial year ends on 31 December.

Mohan depreciates his motor vehicles at 20% per annum on cost, calculated from the date of purchase.

The following information was available on 1 January 2014.

| | Cost | Accumulated depreciation |
|-----------------|--------|--------------------------|
| | \$ | \$ |
| Motor vehicle A | 12 000 | 7 200 |
| Motor vehicle B | 13 000 | 3 900 |

On 1 July 2014 Motor vehicle C was purchased for \$15 000, by cheque.

REQUIRED

(a) Prepare the following accounts for **each** of the two years ended 31 December 2014 and 31 December 2015.

Balance the accounts and bring down the balances on 1 January 2015 and 1 January 2016.

Mohan
Motor vehicles account

| Date | Details | \$ | Date | Details | \$ |
|--------------|--------------------|---------------|-------|---------|-------|
| <i>2014</i> | | | | | |
| <i>Jan 1</i> | <i>Balance b/d</i> | | | | |
| | <i>A – 12 000</i> | | | | |
| | <i>B – 13 000</i> | <i>25 000</i> | | | |
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Provision for depreciation of motor vehicles account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|---------------|-----------------|--------|
| | | | 2014 Jan 1 | Balance b/d | |
| | | | | A – 7200 | |
| | | | | B – <u>3900</u> | 11 100 |
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[11]

- (b) Prepare an extract from the statement of financial position on 31 December 2015 to show the entries for motor vehicles.

Mohan
Extract from Statement of Financial Position at 31 December 2015

Non-current assets

.....

.....

..... [2]

On 1 January 2016 Motor vehicle B was sold for \$2900, cash.

REQUIRED

- (c) Calculate the depreciation on Motor vehicle B up to the date of disposal.

.....

.....

..... [2]

- (d) Complete the following table to name the ledger accounts to be debited and credited to record the disposal of the motor vehicle.

| | account debited | account credited |
|---|-----------------|------------------|
| transferring the original cost of the motor vehicle from the asset account | | |
| transferring the accumulated depreciation on the motor vehicle from the provision account | | |
| recording the proceeds of sale of the motor vehicle | | |

[6]

[Total: 21]

Question 6 is on the next page.

- 6 Annie is a wholesaler of ladies' clothing, selling to retail stores on credit terms. She provided the following information at the end of her second year of trading on 31 December 2015.

| | |
|---------------------------------------|--------|
| | \$ |
| Revenue | 40 000 |
| Cost of sales | 30 500 |
| Profit for the year | 3 800 |
| Inventory 1 January 2015 | 3 600 |
| Inventory 31 December 2015 | 4 800 |
| Capital employed 1 January 2015 | 92 000 |
| Trade receivables at 31 December 2015 | 4 350 |

Annie decided to compare her results with those of her two brothers, Mark and Tony, who formed a partnership six years ago to operate a wholesale food business.

REQUIRED

- (a) Complete the table on the opposite page to show the ratios for Annie's business for the year ended 31 December 2015.

You may use the space below for your workings.

Workings

| Ratio | Annie | Mark and Tony |
|---|-------------|---------------|
| Percentage of gross profit to revenue | 23.75% | 16.50% |
| Percentage of profit for the year to revenue | 9.50% | 11.35% |
| Rate of inventory turnover (to two decimal places) | times | 20.15 times |
| Percentage of profit for the year to opening capital employed (ROCE) (to two decimal places) | % | 10.35% |
| Trade receivables collection period (rounded up to the next whole day) | days | 34 days |

[6]

(b) Explain **one** reason for the difference between the percentages of gross profit to revenue of Annie and her brothers.

.....

 [2]

(c) Comment on the possible effects of Annie increasing the selling price of her goods.

.....

 [2]

(d) State whose business had better control over its expenses. Give a reason for your answer.

Business

Reason

..... [2]

(e) Explain **one** reason for the difference in the rate of inventory turnover.

.....

 [2]

(f) Suggest **one** way in which Annie could increase her rate of inventory turnover.

.....
[1]

(g) Suggest **one** way in which Annie could improve her return on capital employed (ROCE).

.....
[1]

(h) State whose business had the better collection period for trade receivables. Give a reason for your answer.

Business

Reason

.....[2]

(i) Suggest **two** factors, **excluding those provided in the question**, which should be considered when comparing Annie’s results with those of her brothers.

1

2[2]

Annie has a bank overdraft but believes that her current ratio could be improved. She is considering four courses of action.

REQUIRED

(j) Complete the following table by placing a tick (✓) in the correct column to show how **each** of the courses of action would affect Annie’s current ratio.

| | Increase | Decrease | No effect |
|---|----------|----------|-----------|
| Create a provision for doubtful debts | | | |
| Delay payments to credit suppliers | | | |
| Obtain a long-term loan | | | |
| Obtain permission from the bank to increase the overdraft | | | |

[4]

[Total: 24]

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