



**Cambridge International Examinations**  
Cambridge International General Certificate of Secondary Education

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**ACCOUNTING**

**0452/22**

Paper 2

**October/November 2018**

**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 **21** printed pages and **3** blank pages.

1 Rajinder owns an engineering business. His financial year ends on 31 July.

His cash book for July 2018 was as follows.

Rajinder  
Cash Book

| Date   | Details               | Dis.* | Cash | Bank | Date   | Details                     | Dis.* | Cash | Bank |
|--------|-----------------------|-------|------|------|--------|-----------------------------|-------|------|------|
| 2018   |                       | \$    | \$   | \$   | 2018   |                             | \$    | \$   | \$   |
| July 1 | Balance b/d           |       | 113  |      | July 1 | Balance b/d                 |       |      | 4074 |
| 3      | W Limited             | 18    |      | 582  | 2      | Petty cash                  |       | 93   |      |
| 15     | Sale of old machinery |       | 500  |      | 7      | Ayesha (cheque dishonoured) |       |      | 133  |
| 22     | Cash                  |       |      | 450  | 18     | Machinery                   |       |      | 1420 |
| 29     | Sales                 |       | 220  | 880  | 22     | Bank                        |       | 450  |      |
|        |                       |       |      |      | 27     | AM Limited                  | 8     |      | 312  |

\* Dis. stands for discount

**REQUIRED**

(a) (i) State the significance of the balance shown on the credit side of the cash book on 1 July 2018.

.....  
 ..... [1]

(ii) State why the entry on 2 July was required.

.....  
 ..... [1]

(iii) Calculate the percentage that the discount on 3 July represents.

.....  
 ..... [1]

(iv) Suggest **one** possible reason why the cheque from Ayesha was dishonoured.

.....  
 ..... [1]

(v) Explain the entries on 22 July.

.....  
 .....  
 .....  
 ..... [2]

(vi) State the meaning of the entry on 29 July.

.....  
 .....  
 ..... [1]

(b) Calculate the cash and bank balances at the end of July. Name the section of the statement of financial position in which **each** balance would appear.

Cash balance \$ .....  
 Section of statement of financial position .....  
 Bank balance \$ .....  
 Section of statement of financial position ..... [4]

(c) Complete the following accounts in Rajinder’s ledger.

Close the accounts on 31 July 2018 by balancing or by making a transfer to an appropriate account.

Some entries have already been made in the accounts during the year.

Rajinder  
Sales account

| Date  | Details | \$    | Date<br>2018 | Details       | \$     |
|-------|---------|-------|--------------|---------------|--------|
| ..... | .....   | ..... | June 30      | Total to date | 13 500 |
| ..... | .....   | ..... | .....        | .....         | .....  |
| ..... | .....   | ..... | .....        | .....         | .....  |
| ..... | .....   | ..... | .....        | .....         | .....  |

AM Limited account

| Date  | Details | \$    | Date<br>2018 | Details     | \$    |
|-------|---------|-------|--------------|-------------|-------|
| ..... | .....   | ..... | July 1       | Balance b/d | 250   |
| ..... | .....   | ..... | 14           | Purchases   | 440   |
| ..... | .....   | ..... | .....        | .....       | ..... |
| ..... | .....   | ..... | .....        | .....       | ..... |
| ..... | .....   | ..... | .....        | .....       | ..... |

[5]

(d) Prepare the discount allowed account for the year ended 31 July 2018.

The total discount allowed up to 30 June 2018 was \$178.

Close the account on 31 July 2018 by making a transfer to an appropriate account.

Rajinder  
Discount allowed account

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

[3]

[Total: 19]

2 Adil is a wholesaler. All his sales are made on credit terms. His financial year ends on 31 August.

**REQUIRED**

(a) State the meaning of **each** of the following terms.

Bad debts

.....  
 .....

Bad debts recovered

.....  
 .....

Provision for doubtful debts

.....  
 ..... [3]

On 31 August 2018 Adil received a cheque for \$0.20 in a dollar from Mahinda, a credit customer. The balance of the account was irrecoverable.

**REQUIRED**

(b) Record this information in the following accounts in Adil’s ledger.

Close the accounts on 31 August 2018 by balancing or by making a transfer to an appropriate account.

Some entries have already been made in the accounts during the year.

Adil  
Mahinda account

| Date<br>2018 | Details | \$    | Date<br>2018 | Details       | \$    |
|--------------|---------|-------|--------------|---------------|-------|
| Feb 1        | Sales   | 600   | Feb 10       | Sales returns | 30    |
| .....        | .....   | ..... | .....        | .....         | ..... |
| .....        | .....   | ..... | .....        | .....         | ..... |
| .....        | .....   | ..... | .....        | .....         | ..... |
| .....        | .....   | ..... | .....        | .....         | ..... |

Bad debts account

| Date           | Details       | \$    | Date  | Details | \$    |
|----------------|---------------|-------|-------|---------|-------|
| 2018<br>Aug 30 | Total to date | 710   | ..... | .....   | ..... |
| .....          | .....         | ..... | ..... | .....   | ..... |
| .....          | .....         | ..... | ..... | .....   | ..... |
| .....          | .....         | ..... | ..... | .....   | ..... |

[4]

Adil is proposing to stop selling on credit and to sell on cash terms only.

**REQUIRED**

(c) (i) State **one** possible advantage to Adil of going ahead with this proposal.

.....  
 ..... [1]

(ii) State **one** possible disadvantage to Adil of going ahead with this proposal.

.....  
 ..... [1]

(d) Suggest **two** ways (apart from stopping selling on credit) in which Adil could reduce the risk of bad debts.

1 .....  
 .....  
 2 .....  
 ..... [2]

Adil has maintained a provision for doubtful debts for many years. He provided the following information.

|   |        |
|---|--------|
|   | \$     |
| Trade receivables on 31 August 2017                                       | 44 200 |
| Trade receivables on 31 August 2018 (after writing off Mahinda's account) | 42 000 |

On 31 August 2018 Adil decided to reduce the rate of the provision for doubtful debts from 3% to 2½%.

**REQUIRED**

- (e) Prepare the provision for doubtful debts account for the year ended 31 August 2018. Balance the account and bring down the balance on 1 September 2018.

Adil  
Provision for doubtful debts account

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

[4]

- (f) Explain how Adil is applying the accruals (matching) principle by maintaining a provision for doubtful debts.

.....

.....

.....

..... [2]

- (g) Name **two** other accounting principles which Adil is applying maintaining a provision for doubtful debts.

1 .....

2 ..... [2]

On 20 September 2018 Adil received a cheque for \$250 from Amaya whose account had been written off in 2017.

**REQUIRED**

**(h)** State how this was recorded in Adil's books of account.

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

[2]

**(i)** State how this transaction would affect the profit for the year ending 31 August 2019.

.....[1]

[Total: 22]



**PLEASE TURN OVER**

- 3 Paul and Ann are in partnership. Their financial year ends on 30 September.

When they started the business they drew up a partnership agreement which provided for:

Interest on capital at 4% per annum  
 Interest on drawings at 5%  
 An annual salary of \$7000 for Paul  
 Interest on any loans from partners at 6% per annum  
 Sharing of profits and losses equally

On 1 October 2017 the balances on the partners' accounts were as follows:

|                 | Paul         | Ann         |
|-----------------|--------------|-------------|
|                 | \$           | \$          |
| Capital account | 50 000       | 85 000      |
| Current account | 1 150 credit | 3 125 debit |
| Loan account    | 10 000       |             |

The interest on loan is credited to Paul's current account at the end of each financial year.

On 1 April 2018 Paul introduced a motor vehicle, \$14 500, into the business. He also deposited an amount into the business bank account so that his total capital was \$80 000.

The partners agreed that Paul's salary should be increased by \$1000 per annum starting on 1 April 2018.

Drawings during the year ended 30 September 2018 were as follows:

|      | \$     |
|------|--------|
| Paul | 9 000  |
| Ann  | 11 000 |

On 30 September 2018 Ann transferred \$5000 from her capital account to her current account.

The profit for the year ended 30 September 2018 after loan interest was \$11 350.

**REQUIRED**

(a) Prepare journal entries to record the following:

- 1 The introduction of additional capital by Paul on 1 April 2018.
- 2 The transfer of \$5000 from Ann’s capital account to her current account on 30 September 2018.

Narratives are **not** required.

Paul and Ann  
Journal

| Date  | Details | Debit<br>\$ | Credit<br>\$ |
|-------|---------|-------------|--------------|
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |
| ..... | .....   | .....       | .....        |

[5]

(b) Prepare the profit and loss appropriation account for the year ended 30 September 2018.

Paul and Ann  
 Profit and Loss Appropriation Account for the year ended 30 September 2018

|       | \$    | \$    |
|-------|-------|-------|
| ..... | ..... | ..... |
| ..... | ..... | ..... |
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| ..... | ..... | ..... |

[8]

- (c) Prepare the current account of Paul for the year ended 30 September 2018. Balance the account and bring down the balance on 1 October 2018.

Paul  
Current account

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

[8]

[Total: 21]

4 The financial year of LS Limited ends on 30 June.

The following information is available.

|   | \$      |
|---|---------|
| On 1 July 2017  |         |
| Issued share capital of ordinary share of \$0.50 each | 150 000 |
| 5% Debentures repayable in 2022                       | 20 000  |
| Long-term bank loan                                   | 10 000  |

The directors of LS Limited are hoping to expand the business and have estimated that \$80 000 will be required. They anticipate that the expansion will increase the profits of the company, but that there will be no significant increase until 2020.

The finance director has proposed raising funds from  
**either** an issue of ordinary shares of \$0.50 each  
**or** an issue of 6% preference shares of \$1 each  
**or** an issue of 5% debentures repayable in 2024.

**REQUIRED**

(a) Complete the table to indicate how **each** value would change if an issue of debentures was made.

Where the value changes insert the amount in the relevant column.

Where there is no effect, place a tick (✓) in the column headed 'no effect'.

|                           | increase<br>\$ | decrease<br>\$ | no effect |
|---------------------------|----------------|----------------|-----------|
| total of current assets   |                |                |           |
| total profit for the year |                |                |           |
| total equity              |                |                |           |

[3]

(b) State **two** ways in which the existing ordinary shareholders may be affected if an issue of preference shares is made.

1 .....

.....

.....

.....

2 .....

.....

.....

.....

[2]

(c) State **two** ways in which the existing ordinary shareholders may be affected if an issue of additional ordinary shares is made.

- 1 .....
- .....
- 2 .....
- ..... [2]

One of the directors has made the following alternative proposals for raising the necessary funds.

Proposal 1 – use the general reserve

Proposal 2 – request a bank overdraft

**REQUIRED**

(d) State why **each** of these proposals should **not** be accepted.

Proposal 1

- .....
- .....

Proposal 2

- .....
- ..... [2]

(e) Suggest **one** method which the directors have not yet considered to raise the funds required for expansion.

- ..... [1]

[Total: 10]

5 Mariam is a trader. Her financial year ends on 31 July.

She provided the following information.

|                                 | \$             |
|---------------------------------|----------------|
| For the year ended 31 July 2018 |                |
| Total sales – credit            | 192 000        |
| cash                            | <u>28 000</u>  |
|                                 | <u>220 000</u> |
| <br>                            |                |
| Total purchases – credit        | 154 500        |
| cash                            | <u>20 500</u>  |
|                                 | <u>175 000</u> |
| <br>                            |                |
| At 31 July 2018                 |                |
| Inventory                       | 14 900         |
| Trade receivables               | 16 200         |
| Cash                            | 100            |
| <br>                            |                |
| Trade payables                  | 16 500         |
| Bank overdraft                  | 3 700          |

**REQUIRED**

(a) Complete the table on the opposite page to show the ratios for the year ended 31 July 2018.

You may use the space below for your workings.

Workings



| Ratio  | 2018 | 2017     |
|--|------|----------|
| Current ratio (to <b>two</b> decimal places)                           |      | 1.95 : 1 |
| Quick (acid test) ratio (to <b>two</b> decimal places)                 |      | 1.15 : 1 |
| Trade receivables collection period (rounded up to the next whole day) |      | 27 days  |
| Trade payables payment period (rounded up to the next whole day)       |      | 32 days  |

[8]

(b) Suggest **two** reasons for the change in the current ratio.

1 .....

2 ..... [2]

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

|   | increase | decrease | no effect |
|---|----------|----------|-----------|
| introduce \$4000 additional capital in order to pay off the bank overdraft  |          |          |           |
| sell half the inventory at cost price to a cash purchaser                   |          |          |           |
| convert a \$10000 long-term bank loan into a bank overdraft                 |          |          |           |
| increase the bank overdraft by \$16500 in order to repay the trade payables |          |          |           |

[4]

(d) Explain why the quick (acid test) ratio is more reliable than the current ratio as an indicator of liquidity.

.....  
.....  
.....  
.....  
.....  
..... [2]

(e) Comment on the change in the quick (acid test) ratio.

.....  
.....  
.....  
..... [2]

(f) Comment on the change in the trade receivables collection period.

.....  
.....  
..... [2]

(g) (i) Suggest **one** advantage to Mariam of the change in the trade payables payment period.

.....  
..... [1]

(ii) Suggest **one** disadvantage to Mariam of the change in the trade payables payment period.

.....  
..... [1]

[Total: 22]

**6** Priti opened a retail food store on 1 October 2017. She did not keep many accounting records. Priti makes purchases on both cash and credit terms. All sales are made for cash. The following information is available.

|   |        |
|---|--------|
|   | \$     |
| On 1 October 2017                                 |        |
| Capital introduced into the business bank account | 30 000 |

During the year ended 30 September 2018

|  |        |
|--|--------|
| Purchase of non-current assets by cheque | 19 400 |
| Cheques paid to credit suppliers         | 33 150 |
| Discount received                        | 850    |
| Returns to credit suppliers              | 1 670  |
| Cash paid into bank from shop sales      | 48 500 |
| Withdrawals from bank for cash purchases | 4 820  |
| Expenses paid                            | ?      |

On 30 September 2018

|                                  |        |
|----------------------------------|--------|
| Amount owing to credit suppliers | 3 180  |
| Expenses accrued                 | 120    |
| Cash at bank                     | 16 040 |

**REQUIRED**

**(a)** Calculate the total purchases for the year ended 30 September 2018.

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..... [6]

(b) Prepare the bank account for the year ended 30 September 2018. Insert the missing figure which represents the expenses paid during the year.

Priti  
Bank account

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

[7]

Priti did not value her inventory on 30 September 2018.

All goods are sold at a gross profit margin of 20%.

Non-current assets are to be depreciated at the rate of 10%.

**REQUIRED**

- (c) Prepare the income statement for the year ended 30 September 2018. Show the value of the closing inventory, the gross profit and the profit for the year.

Priti  
Income Statement for the year ended 30 September 2018

|       | \$    | \$    |
|-------|-------|-------|
| ..... | ..... | ..... |
| ..... | ..... | ..... |
| ..... | ..... | ..... |
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| ..... | ..... | ..... |

[11]

- (d) State the difference between margin and mark-up.

.....

.....

.....

..... [2]

[Total: 26]

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