



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

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ACCOUNTING

0452/22

Paper 2

February/March 2017

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 Mandeep is a trader who maintains a full set of accounting records including a three column cash book.

His transactions for December 2016 included the following:

- December 4 Paid \$387 by cheque for repairs to office equipment
- 11 Received a cheque from Jabin to settle his account of \$300 less 2% cash discount
- 15 Paid a cheque, \$702, to Rama, after deducting a cash discount of 2½%
- 27 Made cash sales, \$6795
- 29 Withdrew cash, \$5000, for personal use
- 31 Paid all the cash into the bank except \$200

REQUIRED

- (a) Complete Mandeep's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 January 2017.

[10]

Mandeep
Cash Book

| Date | Details | Discount allowed | Cash | Bank | Date | Details | Discount received | Cash | Bank |
|--------------|--------------------|------------------|------------|------|--------------|--------------------|-------------------|------|-------------|
| 2016 | | \$ | | \$ | 2016 | | \$ | | \$ |
| <i>Dec 1</i> | <i>Balance b/d</i> | | <i>150</i> | | <i>Dec 1</i> | <i>Balance b/d</i> | | | <i>2590</i> |
| | | | | | | | | | |
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Mandeep’s financial year ends on 31 December. He prepared his draft financial statements for the year ended 31 December 2016, but did not close or balance his ledger accounts.

Mandeep provided the following information at 31 December 2016.

- 1 At 31 December 2016 the inventory was valued at \$13 420.
- 2 The office fixtures, original cost \$9500, are depreciated at 20% per annum using the reducing (diminishing) balance method.
- 3 The general expenses relating to the financial year ended 31 December 2016 amounted to \$9850.
- 4 Rent receivable owing by the tenant at 31 December 2016 amounted to \$460.
- 5 No entry has been made in the accounting records for a motor vehicle, \$16 000, introduced into the business by Mandeep on 30 December 2016.
- 6 The draft profit for the year ended 31 December 2016 was \$21 600.

REQUIRED

(b) Complete the following accounts in Mandeep’s ledger at 31 December 2016.

Close the accounts by balancing or by making a transfer to an appropriate account.

Mandeep
Inventory account

| Date 2016 | Details | \$ | Date | Details | \$ |
|--------------|--------------------|---------------|-------|---------|-------|
| <i>Jan 1</i> | <i>Balance b/d</i> | <i>12 650</i> | | | |
| | | | | | |
| | | | | | |
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Provision for depreciation of office fixtures account

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

General expenses account

| Date | Details | \$ | Date | Details | \$ |
|---------------|-----------------------|-------------|-------|---------|-------|
| <i>2016</i> | | | | | |
| <i>Dec 31</i> | <i>Total payments</i> | <i>9475</i> | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Rent receivable account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|---------------|-----------------------|-------------|
| | | | <i>2016</i> | | |
| | | | <i>Dec 31</i> | <i>Total receipts</i> | <i>5060</i> |
| | | | | | |
| | | | | | |
| | | | | | |

Drawings account

| Date | Details | \$ | Date | Details | \$ |
|---------------|-----------------------|-------------|-------|---------|-------|
| <i>2016</i> | | | | | |
| <i>Dec 31</i> | <i>Total drawings</i> | <i>8950</i> | | | |
| | | | | | |
| | | | | | |

Capital account

| Date | Details | \$ | Date 2016 | Details | \$ |
|-------|---------|-------|--------------|-------------|--------|
| | | | Jan 1 | Balance b/d | 63 000 |
| | | | | | |
| | | | | | |
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[14]

[Total: 24]

- 2 Vinita’s accountant prepared a set of financial statements at the end of her first year of trading on 31 December 2016.

Vinita was not familiar with some of the terms used in these statements.

REQUIRED

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

- (i) Income statement

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

- (ii) Statement of financial position

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

- (iii) Non-current assets

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

- (iv) Non-current liabilities

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

- (v) Capital

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

- (b) Give **one** example of an intangible asset.

.....[1]

The accountant calculated the following ratios for Vinita’s business on 31 December 2016.

| | |
|---------------|----------|
| Current ratio | 3.62 : 1 |
| Quick ratio | 0.59 : 1 |

REQUIRED

(c) Comment on Vinita’s current ratio.

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

(d) Explain why the quick ratio is a better measure of liquidity than the current ratio.

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

(e) Suggest **two** actions Vinita could take to increase her quick ratio.

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

Vinita wished to compare her results with those of a similar business and was able to obtain the financial statements of a business in the same trade.

REQUIRED

(f) State how **each** of the following may be regarded as a limitation of financial statements.

(i) Historical cost

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

(ii) Non-financial factors

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

[Total: 17]

- 3 The financial year of Doshi Manufacturing Company ends on 31 January. The following trial balance was extracted from the books on 31 January 2017.

| | \$ | \$ |
|-------------------------------------------------|------------------|------------------|
| Inventory 1 February 2016 | | |
| Raw materials | 49 500 | |
| Work in progress | 28 750 | |
| Finished goods | 63 100 | |
| Revenue | | 1 246 850 |
| Returns inwards | 12 250 | |
| Purchases | | |
| Raw materials | 394 600 | |
| Finished goods | 21 700 | |
| Returns of purchases of raw materials | | 16 400 |
| Carriage inwards on purchases of finished goods | 1 500 | |
| Wages | | |
| Factory operatives | 297 100 | |
| Factory supervisors | 152 000 | |
| Office and sales staff | 108 700 | |
| General expenses | 160 000 | |
| Premises at cost | 366 000 | |
| Factory machinery at cost | 250 000 | |
| Office equipment at cost | 72 000 | |
| Loose tools at valuation | 21 150 | |
| Provision for depreciation 1 February 2016 | | |
| Factory machinery | | 122 000 |
| Office equipment | | 32 400 |
| Capital 1 February 2016 | | 630 000 |
| Drawings | 96 750 | |
| Trade receivables | 76 150 | |
| Trade payables | | 41 500 |
| Interest-free short term loan | | 50 000 |
| Bank overdraft | | 32 100 |
| | <u>2 171 250</u> | <u>2 171 250</u> |

The following additional information is available.

- | | | |
|---|----------------------|--------|
| 1 | At 31 January | \$ |
| | inventory | |
| | raw materials | 41 100 |
| | work in progress | 31 250 |
| | finished goods | 59 100 |
| | wages accrued | |
| | factory supervisors | 12 000 |
| | office staff | 4 300 |
| | value of loose tools | 19 050 |
- The factory machinery is being depreciated at 20% per annum on the reducing (diminishing) balance method.
 - The office equipment is being depreciated at 15% per annum on the straight line (equal instalment) method.
 - The loose tools are revalued at the end of each financial year.
 - The general expenses are to be apportioned 3/5 to the factory and 2/5 to the office.

- (c) Suggest **one** reason why the loose tools are revalued at the end of each financial year rather than by using the straight line (equal instalment) or reducing (diminishing) balance method of depreciation.

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

[Total: 24]

4 Lahiru is a trader. The following account appeared in his ledger.

Nusrath account

| Date 2017 | Details | \$ | Date 2017 | Details | \$ |
|--------------|------------------------|-----|--------------|-------------|-----|
| Feb 7 | Returns | 18 | Feb 1 | Balance b/d | 440 |
| 18 | Bank | 429 | 4 | Purchases | 650 |
| | Discount | 11 | | | |
| 28 | Contra to sales ledger | 68 | | | |

REQUIRED

(a) State the section of **Lahiru's** ledger in which the above account would appear.

.....[1]

(b) Explain the entry on 7 February and state where the double entry would be made in **Lahiru's** accounts.

Explanation.....

.....

Double entry[2]

(c) (i) Calculate the percentage of discount which was deducted on 18 February.

.....

.....[1]

(ii) Suggest **one** reason why this discount was deducted.

.....

.....[1]

(d) Suggest why the contra entry was made.

.....

.....[1]

- (e) Prepare the journal entry **Nusrath** would make to record the contra entry. A narrative is required.

Nusrath
Journal

| | Debit \$ | Credit \$ |
|-------|-------------|--------------|
| | | |
| | | |
| | | |
| | | |

[3]

- (f) (i) Calculate the balance of **Lahiru's** account which would appear in **Nusrath's** ledger on 28 February 2017.

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

- (ii) State the section of **Nusrath's** statement of financial position on 28 February 2017 in which the balance of **Lahiru's** account would appear.

.....[1]

Lahiru’s financial year ends on 28 February. He maintains a provision for doubtful debts of 4% of trade receivables at the end of each year.

On 1 March 2016 Lahiru’s provision for doubtful debts amounted to \$500. On 28 February 2017 his trade receivables owed \$17 900.

REQUIRED

- (g) Prepare the provision for doubtful debts account for the year ended 28 February 2017. Balance the account and bring down the balance on 1 March 2017.

Lahiru
Provision for doubtful debts account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
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[4]

- (h) Explain how Lahiru is applying the accounting principle of prudence by maintaining a provision for doubtful debts.

.....

.....

.....

..... [2]

- (i) Explain how Lahiru is applying the accounting principle of accruals (matching) by maintaining a provision for doubtful debts.

.....

.....

.....

..... [2]

[Total: 19]

(b) Prepare an income statement (trading account section) to calculate the revenue for the year.

Jai
Income Statement (Trading Account section) for the year ended 31 January 2017

| | \$ | \$ |
|-------|-------|-------|
| | | |
| | | |
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[7]

(c) Calculate the rate of inventory turnover.

The calculation should be correct to **two** decimal places.

.....

.....

.....

..... [2]

(d) Suggest **two** ways in which the rate of inventory turnover could be improved.

1

.....

2

..... [2]

Jai always values his inventory at the lower of cost and net realisable value.

(e) Name the accounting principle which is being applied.

.....[1]

(f) Complete the following table to indicate the effect of Jai overvaluing his inventory at 31 January 2017. An example has been provided.

| | overstated | understated |
|--------------------------------------------|------------|-------------|
| Current assets at 31 January 2017 | ✓ | |
| Profit for the year ended 31 January 2017 | | |
| Profit for the year ending 31 January 2018 | | |

[2]

Jai is considering increasing his gross profit margin.

REQUIRED

(g) Suggest **two** ways in which Jai might achieve this increase.

1

.....

2

.....[2]

[Total: 22]

- (b) Complete the following table to show the effect, if any, that **correcting each error** would have on the draft profit. Where an error has no effect on profit, place a (✓) in the No Effect column.

| Error | Effect on draft profit for the year of correcting the error | | |
|-------|-------------------------------------------------------------|----------------|-----------|
| | Increase \$ | Decrease \$ | No Effect |
| 1 | | | |
| 2 | | | |
| 3 | | | |
| 4 | | | |
| 5 | | | |

[7]

[Total: 14]

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