



Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

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ACCOUNTING

0452/21

Paper 2

May/June 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 **17** printed pages and **3** blank pages.

1 Katie is a trader. She maintains a full set of accounting records. Her financial year ends on 30 April.

Katie’s transactions for the year ended 30 April 2016 included the following.

| | | | |
|------------------|----|---|------|
| 2015 | | | \$ |
| May | 12 | Paid cash for stationery | 95 |
| June | 16 | Received commission by cheque | 1680 |
| July | 9 | Paid A1 Stationers, by cheque, the balance due on 1 May | |
| Sept | 10 | Received commission by cheque | 1710 |
| Nov | 30 | Purchased stationery on credit from A1 Stationers | 217 |
| Dec | 6 | Returned damaged stationery to A1 Stationers | 53 |
| On 30 April 2016 | | | |
| | | Inventory of stationery | 196 |
| | | Commission receivable outstanding | 1590 |

REQUIRED

(a) Enter the transactions in the following accounts in the ledger of Katie for the year ended 30 April 2016.

Make the transfers to the income statement. Balance the accounts and bring down the balances on 1 May 2016.

Katie
Stationery account

| Date | Details | \$ | Date | Details | \$ |
|---------------|-------------|-------|-------|---------|-------|
| 2015 May 1 | Balance b/d | 182 | | | |
| | | | | | |
| | | | | | |
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A1 Stationers account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|---------------|-------------|-------|
| | | | 2015 May 1 | Balance b/d | 114 |
| | | | | | |
| | | | | | |
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Commission receivable account

| Date | Details | \$ | Date | Details | \$ |
|---------------|-------------|-------|-------|---------|-------|
| 2015 May 1 | Balance b/d | 1680 | | | |
| | | | | | |
| | | | | | |
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| | | | | | |
| | | | | | |

[14]

(b) Name the ledger in which the commission receivable account would appear.

.....[1]

(c) Name the section of the statement of financial position on 30 April 2016 in which the balance on the commission receivable account would appear. Give a reason for your answer.

Section of statement of financial position

Reason

.....

.....[2]

[Total: 17]

2 Sue is a trader. Her financial year ends on 31 December.

She provided the following information about her inventory for the financial year ended 31 December 2014.

| | Cost | Net realisable value |
|-----------------------|------|----------------------|
| | \$ | \$ |
| Inventory 1 January | 6800 | 7100 |
| Inventory 31 December | 8200 | 7800 |

REQUIRED

(a) Define the following terms.

- (i) cost

- (ii) net realisable value

[2]

(b) Explain why the inventory at 31 December 2014 was included in the financial statements at net realisable value rather than cost.

-

[2]

After the preparation of the income statement for the year ended 31 December 2014 it was discovered that the inventory on 1 January had been included at net realisable value.

REQUIRED

(c) Complete the following table to indicate the effect of this error on the cost of sales and the profit for the year ended 31 December 2014.

Place a tick (✓) under the correct heading to indicate whether each item would be overstated or understated.

| | overstated | understated |
|---------------------|------------|-------------|
| cost of sales | | |
| profit for the year | | |

[2]

Sue provided the following information for the year ended 31 December 2015.

| | |
|-------------------|--------|
| | \$ |
| Cost of sales | 49 900 |
| Average inventory | 7 500 |

REQUIRED

(d) (i) State the formula for the calculation of the rate of inventory turnover.

.....
[1]

(ii) Calculate the rate of inventory turnover for the year ended 31 December 2015.
 The calculation should be correct to **two** decimal places.
 Show your workings.

.....

[2]

Sue’s rate of inventory turnover for the previous year was 8.15 times.

REQUIRED

(e) State whether you consider that Sue would be satisfied with the change in the rate of inventory turnover. Give a reason for your answer.

Satisfied?

Reason

.....[2]

(f) Suggest **one** way in which the rate of inventory turnover could be improved.

.....
[1]

Sue's cash book for the month of April 2016 was as follows.

Sue
Cash Book

| Date | Details | Dis.* | Cash | Bank | Date | Details | Dis.* | Cash | Bank |
|---------|-------------|-------|------|------|---------|----------------------------|-------|------|------|
| 2016 | | \$ | \$ | \$ | 2016 | | \$ | \$ | \$ |
| April 1 | Balance b/d | | 120 | | April 1 | Balance b/d | | | 3842 |
| 9 | Bank loan | | | 3000 | 9 | J Foy (cheque dishonoured) | | | 116 |
| 19 | A Meyer | 8 | | 392 | 14 | K Mzolo | 15 | | 585 |
| 28 | Sales | | 1940 | | 21 | Repairs | | 58 | |
| 29 | Cash | | | 2000 | 24 | Bank charges | | | 211 |
| | | | | | 29 | Bank | | 2000 | |

*Dis. stands for Discount

REQUIRED

(g) (i) State the significance of **each** of the balances on 1 April 2016.

Balance in cash column

 Balance in bank column
 [2]

(ii) Suggest **two** possible reasons why the cheque from J Foy was dishonoured on 9 April.
 1
 2 [2]

(iii) State whether Sue allowed or received the discount on 14 April.
 [1]

(iv) Calculate the percentage the discount on 14 April represents correct to **two** decimal places.

 [1]

(v) Explain the entries on 29 April.

 [2]

3 The financial year of the Hillcrest Athletics Club ends on 30 April.

In addition to providing training facilities for members, the club also runs a café for members and visitors.

The treasurer provided the following information.

| | At 1 May 2015 | At 30 April 2016 |
|-----------------------------------|---------------|------------------|
| | \$ | \$ |
| Subscriptions prepaid | 1045 | - |
| Subscriptions accrued | 760 | 285 |
| Rent, rates and insurance prepaid | 155 | 180 |
| Café inventory | 790 | 850 |
| Café suppliers | 1292 | 1137 |

During the year ended 30 April 2016:

| Amounts received | \$ | Amounts paid | \$ |
|-----------------------------------|-------|---------------------------|-------|
| Subscriptions | 16910 | Café suppliers | 7998 |
| Café sales | 10430 | Rent, rates and insurance | 4860 |
| Proceeds of sale of old equipment | 1059 | New equipment | 16300 |
| | | General expenses | 14794 |

During the year, all the equipment was sold and was replaced by new equipment. At the date of sale, the net book value of equipment was \$956.

Equipment is depreciated by 15% per annum on the cost of equipment held at the end of each year. No depreciation is charged in the year of disposal.

REQUIRED

(a) Prepare the income statement for the café for the year ended 30 April 2016.

Hillcrest Athletics Club
Café Income Statement for the year ended 30 April 2016

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

[7]

- 4 At the end of the financial year on 29 February 2016 Nyeko Limited provided the following information.

| | | |
|----------------------|-----------------------------|----------------|
| On 28 February 2015: | | \$ |
| | 4% Debentures | <u>80 000</u> |
| | Equity and reserves | |
| | Ordinary shares of \$1 each | 200 000 |
| | General reserve | 34 000 |
| | Retained earnings | <u>8 000</u> |
| | | <u>242 000</u> |

During the year ended 29 February 2016:

| | | |
|-------------|--|--------|
| 2015 | | \$ |
| March 1 | Issue of ordinary shares of \$1 each | 50 000 |
| May 1 | Payment of final dividend on ordinary shares for the financial year ended 28 February 2015 | 8 000 |
| November 1 | Payment of interim dividend on ordinary shares for the financial year ended 29 February 2016 | 6 250 |
| 2016 | | |
| February 29 | Transfer to general reserve | 6 000 |
| | Proposed final ordinary share dividend for the financial year ended 29 February 2016 | 5 000 |

For the year ended 29 February 2016:

| | |
|---|---------|
| | \$ |
| Revenue | 180 200 |
| Profit for the year before debenture interest | 19 360 |

REQUIRED

- (a) Calculate the profit for the year ended 29 February 2016 after debenture interest.

.....
[2]

- (b) (i) Calculate the percentage (%) **final** ordinary share dividend for the year ended 28 February 2015. Show your workings.

.....
[1]

- (ii) Calculate the percentage (%) **total** ordinary share dividend for the year ended 29 February 2016. Show your workings.

.....

 [3]

- (c) Prepare the statement of changes in equity for the year ended 29 February 2016.

Nyeko Limited
 Statement of Changes in Equity for the year ended 29 February 2016

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

[7]

- (d) (i) Calculate the profit for the year after debenture interest as a percentage of revenue.

The calculation should be to **two** decimal places. Show your workings.

.....

 [2]

(ii) Suggest **two** ways in which the profit for the year as a percentage of revenue could be improved.

- 1
-
- 2
-[2]

(e) (i) Calculate the profit for the year ended 29 February 2016 after debenture interest as a percentage of equity and reserves on 28 February 2015. The calculation should be to **two** decimal places. Show your workings.

-
-
-[2]

(ii) Suggest **two** ways in which the profit for the year as a percentage of equity and reserves could be improved.

- 1
-
- 2
-[2]

The directors of Nyeko Limited wish to raise additional funds to finance a programme of expansion. They are considering raising \$60 000 by an issue of 5% preference shares of \$1 each.

REQUIRED

(f) State **two** ways in which the ordinary shareholders may be affected if Nyeko Limited raised the additional funds by the issue of preference shares.

- 1
-
- 2
-[2]

[Total: 23]

Question 5 is on the next page.

- 5 Samar is a trader. His financial year ends on 30 April. He maintains a provision for doubtful debts of 2½% of the trade receivables at the end of each year.

On 1 May 2015 Samar’s provision for doubtful debts amounted to \$474. On 30 April 2016 his credit customers owed \$17 440.

REQUIRED

- (a) Prepare the provision for doubtful debts account for the year ended 30 April 2016. Balance the account and bring down the balance on 1 May 2016.

Samar
Provision for doubtful debts account

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

- (b) Prepare an extract from the statement of financial position on 30 April 2016 to show the trade receivables.

Samar
Extract from Statement of Financial Position at 30 April 2016

Current assets

| | |
|-------|-----|
| | |
| | |
| | [2] |

- (c) State the difference between a bad debt and a provision for doubtful debts.

| | |
|-------|-----|
| | |
| | |
| | |
| | [2] |

(d) Explain how Samar is applying the accounting principle of prudence by maintaining a provision for doubtful debts.

.....

 [2]

(e) State **one** other accounting principle which Samar is applying by maintaining a provision for doubtful debts.

..... [1]

(f) Suggest **two** ways in which Samar could reduce the risk of bad debts.

1

 2
 [2]

On 10 May 2016 Samar received a cheque, \$49, from M Khan, whose account had been written off in 2014.

REQUIRED

(g) Prepare a journal entry to record the recovery of the bad debt.
 A narrative **is** required.

Samar
Journal

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

[3]

[Total: 16]

6 Wasim is a trader. His financial year ends on 31 March.

The totals of his trial balance on 31 March 2016 did not agree. The difference was a shortage on the debit side of \$495. This was entered in a suspense account.

The following errors were later discovered.

- 1 The total of a page of the purchases account, \$3842, had been carried forward as \$3824.
- 2 A cheque received from DEC Limited, \$150, had been credited to the account of DDE Limited.
- 3 The balance of the petty cash book, \$100, had been omitted from the trial balance.
- 4 Repairs to motor vehicle, \$283, had been debited to the motor vehicles account.
- 5 Purchase of fixtures, \$2200, on credit from Office Supplies Company, had been debited to Office Supplies Company and credited to fixtures account.
- 6 The total of the discount allowed column in the cash book, \$250, had been credited to the discount received account in the ledger.
- 7 The total of the analysis column for stationery in the petty cash book, \$67, had not been transferred to the stationery account in the ledger.

REQUIRED

(a) Prepare the suspense account. Start with the balance arising from the difference on the trial balance. The account should be balanced or totalled as necessary.

Wasim
Suspense account

| Date | Details | \$ | Date | Details | \$ |
|-------|---------|-------|-------|---------|-------|
| | | | | | |
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[7]

- (b) Prepare journal entries to correct **two** of the errors which do **not** require correcting by means of the suspense account. Narratives **are** required.

Wasim
Journal

| Error number | | Debit \$ | Credit \$ |
|--------------|-------|----------|-----------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
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| | | | |
| | | | |
| | | | |

[6]

- (c) Name the type of error made in **Error 2**.

.....[1]

Wasim prepared draft financial statements for the year.

REQUIRED

- (d) Complete the following table by placing a tick (✓) in the correct column to indicate whether the profit for the year would be affected by **each** of the errors.

The first one has been completed as an example.

| error number | affects profit for the year | does not affect the profit for the year |
|--------------|-----------------------------|---|
| 1 | ✓ | |
| 2 | | |
| 3 | | |
| 4 | | |
| 5 | | |
| 6 | | |
| 7 | | |

[6]

[Total: 20]

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