

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers

0452 ACCOUNTING

0452/23

Paper 2, maximum raw mark 120

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1 (a)

Silston Ltd
Balance Sheet at 31 October 2010

	\$	\$	\$
Non-current (fixed) assets at cost			174 000
Less Depreciation to date			<u>26 100</u>
			147 900 (1)
Current Assets			
Inventory (stock)		13 350	} (1)
Cash		210	}
Trade receivables (debtors)	11 200		
Less Provision for doubtful debts	<u>224</u>	<u>10 976</u>	(1)
		24 536	
Current Liabilities			
Trade payables (creditors)	6 500	} (1)	
Bank overdraft	2 736	}	
Other payables – proposed dividends (1600 (1) + 3600 (1))	<u>5 200</u>	<u>14 436</u>	
Net current assets (working capital)			<u>10 100</u> (1)
			158 000
3% Debentures of \$100 each			<u>20 000</u> (1)
			<u>138 000</u>
Capital and Reserves			
4% Preference shares of \$1 each			40 000 (1)
Ordinary shares of \$1 each			80 000 (1)
General reserve (4000 (1) + 3000 (1))			7 000
Profit and loss account (retained profits)			<u>11 000</u> (1)
			<u>138 000</u>

Horizontal format acceptable

[13]

(b) Preference shares	Ordinary shares
Receive a fixed rate of dividend	Dividends may vary
Do not usually carry voting rights	Usually carry voting rights
Dividend is paid before ordinary share dividend	Dividend is paid after preference share dividend
Capital is returned before ordinary share capital in a winding up	Are the last to be repaid in a winding up

Any 2 differences (2) each

[4]

- (c) Debentures are long-term loans
 Debentures holders are not members of the company
 Debentures receive a fixed rate of interest
 Debenture holders are repaid before shareholders in a winding-up

Any 2 features (2) each

[4]

[Total: 21]

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2 (a) Bank 2 January 2010

Explanation Lynda Chomba has invested additional capital and the money has been paid into the business bank account **(2)**
Double entry debit bank column in cash book **(1)**

Purchases 30 September 2010

Explanation Lynda Chomba has taken goods from the business for her own use **(2)**
Double entry credit purchases account **(1)**

Loss for the year

(net loss) The expenses of the business exceeded the gross profit so the business has made a loss **(2)**
Double entry credit income statement (profit and loss account) **(1)** [9]

(b) The balance represents the amount of Lynda Chomba's capital at the end of the financial year/at the start of the new financial year. **(1)**

This is the amount the business owes Lynda Chomba at that date. **(1)** [2]

(c) (i) The business entity principle makes a distinction between the financial transactions of a business and those of its owner(s). **(2)**

Or

The business is treated as being completely separate from the owner(s) of the business. **(2)** [2]

(ii) Either

The owner's capital is shown as a credit balance representing an amount owed by the business

Or

The goods withdrawn for personal use are debited to the account reducing the amount the business owes the owner

Or

The loss for the year is debited to the account reducing the amount the business owes the owner

Any 1 example (1) [1]

(d) Duality [1]

(e) Money measurement [1]

(f) Work can be shared amongst several people
Easier for reference as the same type of accounts are kept together
Easier to introduce checking procedures

Or other suitable point

Any 2 points (1) each [2]

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(g) (i) Purchases returns journal (1)

(ii) Journal (1)

(iii) Cash book (1)

[3]

$$(h) \frac{9\,260}{48\,500} (1) \times \frac{365}{1} (1) = 69.69 \text{ days} = 70 \text{ days} (1)$$

[3]

(i) The business may not have enough liquid funds with which to pay the creditors until money is received from the debtors.

Or

If the debtors pay within the set time the business may be able to pay its creditors within the set time without any significant impact on the bank balance.

Or

If the debtors fail to pay within the set time it may be necessary to obtain short-term funds in order to pay the creditors.

Or other suitable point

Any 1 point (2)

[2]

[Total: 26]

3 (a)

Mokolodi Athletics Club
Shop Income Statement (Trading Account) for the year ended 31 July 2010

	\$	\$
Revenue (Sales)		
7500 (1)		
Less		
Cost of sales		
Purchases (2950 (1) + 550 (1))	3 500	
Less Closing inventory (stock)	<u>650 (1)</u>	
	2 850	
Shop assistant's wages (1470 (1) + 90 (1))	1 560	
Shop rent (20% x 5200)	<u>1 040 (1)</u>	<u>5 450</u>
Profit for the year		<u>2 050 (1)</u> O/F

Horizontal format acceptable

[8]

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(b)

Mokolodi Athletics Club
Income and Expenditure Account for the year ended 31 July 2010

	\$	\$
Income		
Subscriptions (7950 (1) + 750 (1) – 200 (1))		8 500
Profit for the year on shop		2 050 (1)O/F
Open day – ticket sales	840 (1)	
Less expenses	<u>690 (1)</u>	<u>150</u>
		10 700
Expenditure		
Rent (80% x 5200)	4 160 (1)	
Insurance	1 700 (1)	
General expenses (1990 (1) – 140 (1))	1 850	
Repairs and maintenance	1 070 (1)	
Groundsman's wages	2 500 (1)	
Depreciation of sports equipment (6100 – 5400)	<u>700 (1)</u>	<u>11 980</u>
Deficit for the year		<u>1 280 (1)O/F</u>

Horizontal format acceptable

[14]

- (c)** R & P A/c shows total money paid and received
I & E A/c adjusts figures for accruals and prepayments
I & E A/c includes non-monetary items such as depreciation
I & E A/c includes only revenue items

Any 1 acceptable explanation (2)

[2]

[Total: 24]

- 4 (a)** Depreciation is an estimate of the loss in value of a non-current (fixed) asset over its expected working life.

Or other acceptable definition

[1]

- (b)** Physical deterioration
Economic reasons
Passage of time
Depletion

Any 2 causes (1) each

[2]

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- (c) (i) Prudence
Or
 Accruals (Matching) [1]

- (ii) Prudence – To ensure that the profit is not overstated **(1)** and that the value of the non-current (fixed) assets is not overstated. **(1)**

Or

- Accruals (Matching) – To ensure that the loss in value of non-current (fixed) assets is spread over the period in which they are earning revenue. **(2)** [2]

(d)

Ameena Saber
 Equipment account

	\$		\$
2008		2009	
Sept 1 Bashir Supplies	<u>12 200</u> (1)	Aug 31 Balance c/d	<u>12 200</u>
	<u>12 200</u>		<u>12 200</u>
2009		2010	
Sept 1 Balance b/d	12 200	Aug 31 Balance c/d	21 500
2010			
May 1 Bank	<u>9 300</u> (1)		
	<u>21 500</u>		<u>21 500</u>
2010			
Sept 1 Balance b/d	21 500 (1)		

[3]

Provision for depreciation of equipment account

	\$		\$
2009		2009	
Aug 31 Balance c/d	1 830	Aug 31 Income statement (Profit & loss)	<u>1 830</u> (1)
	<u>1 830</u>		<u>1 830</u>
2010		2009	
Aug 31 Balance c/d	4 125	Sept 1 Balance b/d	1 830 (1)O/F
		2010	
		Aug 31 Income statement (Profit & loss)	
		1 830 (1)	
		<u>465</u> (1)	<u>2 295</u>
	<u>4 125</u>		<u>4 125</u>
		2010	
		Sept 1 Balance b/d	4 125 (1)O/F [5]

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Alternative presentation

Ameena Saber
Equipment account

	Debit \$	Credit \$	Balance \$	
2008				
Sept 1 Bashir Supplies	12 200	(1)	12 200	Dr
2010				
May 1 Bank	9 300	(1)	21 500	Dr (1) [3]

Provision for depreciation of equipment account

	Debit \$	Credit \$	Balance \$	
2009				
Aug 31 Income statement (Profit and loss)		1 830	1 830	Cr
2010				
Aug 31 Income statement (Profit and loss) 1 830 (1)			(1)O/F	
<u>465</u> (1)		2 295	4 125	Cr
			(1)O/F	

[5]

(e)

Ameena Saber
Journal

	Debit \$	Credit \$	
Disposal of equipment	3 050		(1)
Equipment		3 050	(1)
Transfer of cost of equipment sold to disposal account			(1)
Provision for depreciation of equipment	915		(1)
Disposal of equipment		915	(1)
Transfer of depreciation on equipment sold to disposal account			(1)
Bank	900		(1)
Disposal of equipment		900	(1)
Cheque received on sale of equipment			(1)

[9]

[Total: 23]

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- 5 (a) (i) Sales = cost of sales + gross profit =
340 000 + 85 000 = 425 000 (1)

$$\text{Gross profit as \% of sales} = \frac{85\,000}{425\,000} \times \frac{100}{1} \text{ (1)} = 20.00\% \text{ (1) O/F}$$

[3]

- (ii) Profit for the year (net profit) = gross profit – expenses =
85 000 – 49 000 = 36 000 (1)

$$\text{Profit for the year (net profit) as \% of sales} = \frac{36\,000}{425\,000} \times \frac{100}{1} \text{ (1)} = 8.47\% \text{ (1) O/F}$$

[3]

- (iii) Return on capital employed (ROCE)
 $\frac{36\,000}{330\,000} \text{ (O/F)} \times \frac{100}{1} \text{ (1)} = 10.91\% \text{ (1) O/F}$

[2]

- (b) (i) Percentage of gross profit to sales

This measures the success in selling goods

The ratio shows the gross profit earned per \$100 of sales

The ratio can be compared with previous years

The ratio can be compared against other businesses

Mark Ukata has spent 80% (O/F) of the sales income on the cost of goods

Or other relevant explanation

Any 3 points (1) each

[3]

- (ii) Percentage of profit for the year (net profit) to sales

This measures the overall success of the business

The ratio shows the net profit earned per \$100 of sales

The ratio can be compared with previous years

The ratio can be compared against other businesses

The ratio indicates how well the business controls its expenses

Mark Ukata has spent 11.53% (O/F) of the sales income on expenses

Or other relevant explanation

Any 3 points (1) each

[3]

- (iii) Return on capital employed (ROCE)

The ratio shows the profit earned per \$100 employed in the business

The ratio can be compared with previous years

The ratio can be compared against other businesses

The ratio measures the profitability of the investment in the business

The ratio shows how efficiently the capital is being employed

Or other relevant explanation

Any 3 points (1) each

[3]

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- (c) Cost is the actual purchase price plus any additional costs incurred in bringing the inventory (stock) to its present condition and position. **(1)**

Net realisable value is the estimated receipts from the sale of the inventory (stock), less any costs of completing or selling the goods. **(1)** [2]

- (d) Inventory (stock) should always be valued at the lowest of cost and net realisable value. **(1)**
This is an application of the principle of prudence. **(1)**
Over-valuing inventory (stock) causes both the profit for the year and the current assets to be incorrect. **(1)**

Or other relevant explanation

Any 2 points (1) each

[2]

(e)

	Overstated	Understated
Cost of sales	✓ (1)	
Gross profit		✓ (1)
Profit for the year (Net profit)		✓ (1)

[3]

- (f) Reduce (inventory) stock levels
Generate more sales activity
Only replace inventory (stock) when needed

Or other suitable point

Any 2 points (1) each

[2]

[Total: 26]