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			26 100	
			147 900	**(1)**
Current Assets				
Inventory (stock)		13 350 **} (1)**		
Cash		210 **}**		
Trade receivables (debtors)	11 200			
Less Provision for doubtful debts	224	10 976 **(1)**		
		24 536		
Current Liabilities				
Trade payables (creditors)	6 500 **} (1)**			
Bank overdraft	2 736 **}**			
Other payables – proposed dividends (1600 **(1)** + 3600 **(1)**)	5 200	14 436		
Net current assets (working capital)			10 100	**(1)**
			158 000	
3% Debentures of $100 each			20000	**(1)**
			138 000	
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)			11 000	**(1)**
			138 000	

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]

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]

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

(ii) Journal **(1)**

(iii) Cash book **(1)** [3]

(h) $\frac{9\,260}{48\,500}$ **(1)** × $\frac{365}{1}$ **(1)** = 69.69 days = 70 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)	650 **(1)**	
	2 850	
Shop assistant's wages (1470 **(1)** + 90 **(1)**)	1 560	
Shop rent (20% x 5200)	1 040 **(1)**	5 450
Profit for the year		2 050 **(1)O/F**

Horizontal format acceptable [8]

(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	690	**(1)**	150	
			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)	700	**(1)**	11 980	
Deficit for the year			1 280	**(1)O/F**

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]

(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	12 200	**(1)**	Aug 31 Balance c/d	12 200
	12 200			12 200
2009			2010	
Sept 1 Balance b/d	12 200		Aug 31 Balance c/d	21 500
2010				
May 1 Bank	9 300	**(1)**		
	21 500			21 500
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)		1 830	**(1)**
	1 830			1 830	
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)**		
			465 **(1)**	2 295	
	4 125			4 125	
		2010			
		Sept 1 Balance b/d		4 125	**(1)O/F**

[5]

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)**	1 830	Cr **(1)O/F**	
2010							
Aug 31	Income statement (Profit and loss) 1 830 **(1)** <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]

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

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

[3]

(ii) Profit for the year (net profit) = gross profit – expenses =
85 000 – 49 000 = 36 000 **(1)**
Profit for the year (net profit) as % of sales =
$\frac{36\,000}{425\,000}$ **O/F** $\times \frac{100}{1}$ **(1)** = 8.47% **(1) O/F**

[3]

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

(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]