

MARK SCHEME for the May/June 2008 question paper

0452/03	0452 ACCOUNTING Paper 3, maximum raw mark 100
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This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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- 1 (a) Ascertain the true bank balance at a certain date
 Assist in detecting fraud and embezzlement
 Identify any “stale” cheques
 Demonstrate that any differences between the cash book balance and that on the statement are due to genuine reasons

Or other suitable reason

Any two reasons (1) each [2]

- (b) Cash Book (bank columns only)

2008		\$		2008		\$	
May 1	Balance	b/d	2073 (1)	May 1	Insurance	360 (1)	
					Lobatse Traders		
					(dishon. chq.)	314 (1)	
					Bank charges	11 (1)	
					Correction of error	90 (1)	
					Balance	c/d	<u>1298</u>
							<u>2073</u>
			<u>2073</u>				
May 1	Balance	b/d	1298 (1)O/F				

[6]

- (c) Bank Reconciliation Statement at 30 April 2008

		\$		\$	
Balance shown on bank statement				1250 (1)	
Add amounts not yet credited – Cash				<u>500 (1)</u>	
				1750	
Less cheques not yet presented – Ghanzi & Co	390 (1)				
bank error	<u>62 (2)</u>			<u>452</u>	
Balance shown in cash book				<u>1298 (1)O/F</u>	

[6]

Alternative presentation

Bank Reconciliation Statement at 30 April 2008

		\$		\$	
Balance shown in cash book				<u>1298 (1)O/F</u>	
Add cheques not yet presented – Ghanzi & Co	390 (1)			<u>452</u>	
bank error	<u>62 (2)</u>			1750	
Less amounts not yet credited – Cash				<u>500 (1)</u>	
Balance shown on bank statement				<u>1250 (1)</u>	

[6]

- (d) \$1298 (1)O/F
 Asset (1)

[2]

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(e) Current ratio
 $(6322 + 5670 + 100 + 1298 \text{ O/F}) : 7250 \text{ (1)O/F}$
 $= 13390 \text{ O/F} : 7250$
 $= 1.85 : 1 \text{ (1)O/F}$ [2]

(f) Does not include stock in the calculation (1)

Either

Stock is not regarded as a liquid asset – a buyer has to be found and then the money collected. Some stock may prove to be unsaleable. (1)

Or

The quick ratio shows whether the business would have any surplus liquid funds if all the current liabilities were paid immediately from the liquid assets. (1) [2]

[Total: 20]

2 (a) Ensures that profits are not overstated (prudence)
Ensures that debtors are shown in balance sheet at more realistic amount (prudence)
Application of matching principle as the amount of sales unlikely to be paid for are treated as an expense of that particular year

Or other suitable reason

Any one reason (1) [1]

(b) 2007 February 1 Balance
The provision for doubtful debts in existence at that date brought down from the previous financial year. (2)

2008 January 31 Profit and loss

The amount transferred to the profit and loss account representing the surplus provision no longer required. (2)

\$600 shown at the end of the account

The new provision for doubtful debts carried forward to the next financial year. (2) [6]

(c) If debtors delay payment the business may be forced to delay paying its creditors unless liquid funds are available.

If 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 other suitable comment

Any one reason (2) [2]

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(d) Collection period for debtors

$$\frac{30\,000}{268\,500} \times \frac{365}{1} \text{ (1)} = 40.78 \text{ days} = 41 \text{ days (1)} \quad [2]$$

(e) Payment period for creditors

$$\frac{20\,200}{242\,500} \times \frac{365}{1} \text{ (1)} = 30.40 \text{ days} = 31 \text{ days (1)} \quad [2]$$

(f) May be able to take advantage of cash discounts
Improve the relationship with suppliers

Or other suitable comment

Any two points (1) each

[2]

(g) Subscriptions account

2007		\$		2008		\$	
Apl 1	Balance b/d	320	(1)	Mar 31	Cash	8720	(1)
2008							
Mar 31	Balance c/d	400	(1)				
	Income & Expenditure(1)	<u>8000</u>	(1)O/F			<u>8720</u>	
		<u>8720</u>		2008			
				Apl 1	Balance b/d	400	(1)

+ (1) dates
[7]

Alternative presentation

Subscriptions account

		Debit	Credit	Balance
		\$	\$	\$
2007				
Apl 1	Balance	320	(1)	320 Dr
2008				
Mar 31	Cash		8720 (1)	8400 Cr
	Income & Expenditure (1)	8000	(1)O/F	400 Cr (2)

+ (1) dates
[7]

[Total: 22]

3 (a)

Journal

		Debit \$		Credit \$
1	Stationery Abdul Current	20	(1)	20 (1)
2	Suspense Purchases	300	(1)	300 (1)
3	Suspense Bad Debts Bad Debts Recovered	100	(1)	50 (1) 50 (1)
4	Amina Capital Amina Current	2200	(1)	2200 (1)

[9]

(b)

Suspense account

2008	\$	2008	\$
Apl 30 Purchases	300 (1)	Apl 30 Difference on trial balance	400 (1)
Bad debts	50 (1)		
Bad debts recovered	<u>50 (1)</u>		
	<u>400</u>		<u>400</u>

[4]

Alternative presentation

Suspense account

	Debit \$	Credit \$	Balance \$
2008			
Apl 30 Difference on trial balance		400 (1)	400 Cr
Purchases	300 (1)		100 Cr
Bad debts	50 (1)		50 Cr
Bad debts recovered	50 (1)		0

[4]

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(c)

Abdul and Amina Mahmoud
Statement of corrected net profit for the year ended 30 April 2008

			\$
	Net profit before corrections		12 900
		Effect on net profit	
		Increase Decrease	
		\$ \$	
Error 1			20
2	300	(1)	
3	100	(1)	
4		No effect (1)	
	400		380
	Corrected net profit		<u>13 280</u> (1)O/F

[4]

- (d) Increase gross profit e.g. increase profit margin, increase selling prices etc.
Reduce expenses e.g. reduce staffing levels, reduce advertising etc.
Increase other income e.g. rent out part of premises, earn more discount

Or other acceptable point

Any two points (1) each

[2]

[Total: 19]

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- 4 (a) (i) Stocks are valued at the lower of cost and net realisable value. [1]
(ii) Prudence [1]

(b) Gideon Yeboah
Manufacturing Account for the year ended 31 March 2008

	\$		\$
Cost of raw materials			
Opening stock of raw materials	21 230	(1)	
Purchases	<u>255 620</u>	(1)	276 850
Less Closing stock of raw materials			<u>19 410</u> (1)
			257 440
Direct factory wages (194 060 + 4800) (1)			<u>198 860</u>
Prime cost			456 300 (1)
Factory general expenses (133 910 – 210)	133 700	(1)	
Depreciation factory machinery (103 000 + 21 000 – 92 000)	<u>32 000</u>	(1)	<u>165 700</u>
			622 000 (1)O/F
Add opening work in progress			<u>11 680</u> (1)
			633 680
Less closing work in progress			<u>12 130</u> (1)
Cost of production			<u>621 550</u> (1)O/F

Horizontal format acceptable [11]

(c) Gideon Yeboah
Trading Account for the year ended 31 March 2008

	\$		\$
Sales			825 000 (1)
Less Cost of sales			
Opening stock of finished goods	46 900	(1)	
Cost of production	621 550	(1)O/F	
Purchases of finished goods	<u>13 200</u>	(1)	
	681 650		
Less Closing stock of finished goods	<u>53 170</u>	(1)	<u>628 480</u>
Gross profit			<u>196 520</u> (1)O/F

Horizontal format acceptable [6]

[Total: 19]

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- 5 (a) Ensures that the loss in value of motor vehicles is spread over the period in which they are earning revenue. [2]

(b) (i)

Motor vehicles account

2006		\$		2006		\$	
Jan 1	Ansari Road			Dec 31	Balance c/d	60 000	
	Motors	<u>60 000</u>	(1)			<u>60 000</u>	
		<u>60 000</u>					
2007				2007			
Jan 1	Balance b/d	60 000		Jun 30	Disposals	20 000	(1)
		<u>60 000</u>		Dec 31	Balance c/d	40 000	(1)O/F
						<u>60 000</u>	
2008							
Jan 1	Balance b/d	40 000	(1)O/F				

(ii)

Provision for depreciation of motor vehicles account

2006		\$		2006		\$	
Dec 31	Balance c/d	<u>12 000</u>		Dec 31	Profit & loss	<u>12 000</u>	(1)
		<u>12 000</u>				<u>12 000</u>	
2007				2007			
Jun 30	Disposals	4 000	(2)	Jan 1	Balance b/d	12 000	(1)O/F
Dec 31	Balance c/d	<u>14 400</u>	(1)O/F	Dec 31	Profit & loss	<u>6 400</u>	(2)O/F
		<u>18 400</u>				<u>18 400</u>	
				2008			
				Jan 1	Balance b/d	14 400	(1)O/F

(iii)

Disposal of motor vehicle account

2007		\$		2007		\$	
Jun 30	Motor vehicles	20 000	(1)O/F	Jun 30	Prov. for Dep.	4 000	(1)O/F
Dec 31	Profit & loss (1)	<u>1 000</u>	(1)O/F		Apollo Traders	<u>17 000</u>	(1)
		<u>21 000</u>				<u>21 000</u>	

+ (1) dates
[18]

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Alternative presentation

(b) (i) Motor vehicles account

	Debit	Credit	Balance
2006	\$	\$	\$
Jan 1 Ansari Road Motors	60 000 (1)		60 000 Dr
2007			
Jun 30 Disposals		20 000 (1)	40 000 Dr(2)O/F

(ii) Provision for depreciation of motor vehicles account

	Debit	Credit	Balance
2006	\$	\$	\$
Dec 31 Profit & loss		12 000 (1)	12 000 Cr(1)O/F
2007			
Jun 30 Disposals	4 000 (2)		8 000 Cr
Dec 31 Profit & loss		6 400 (2)O/F	14 400 Cr(2)O/F

(iii) Disposal of motor vehicle account

	Debit	Credit	Balance
2007	\$	\$	\$
Jun 30 Motor vehicles	20 000 (1)O/F		20 000 Dr
Prov. for Dep.		4 000 (1)O/F	16 000 Dr
Apollo Traders		17 000 (1)	1 000 Cr
Dec 31 Profit & loss (1)	1 000 (1)O/F		0

+ (1) dates
[18]

[Total: 20]