

**MARK SCHEME for the May/June 2014 series**

**0452 ACCOUNTING**

**0452/21**

Paper 2, maximum raw mark 120

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, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

<b>Page 2</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2014</b>	<b>0452</b>	<b>21</b>

1 (a)

Nasir Manufacturing Limited  
Manufacturing Account for the year ended 31 January 2014

	\$	\$
Cost of materials used		
Opening inventory of raw materials		23 500
Purchases of raw materials		<u>124 600</u> (1)
		148 100
Closing inventory of raw materials		<u>26 100</u>
		122 000 (1)
Direct wages (136 000 + 2 200)		138 200 (1)
Direct expenses		<u>16 300</u> (1)
Prime cost		276 500 (1)
Factory overheads		
Wages of factory supervisors	31 400 }	
General factory expenses	19 208 } (1)	
Rates & insurance ( $\frac{3}{4} \times (6\,360 - 120)$ )	4 680 (2)	
Depreciation Plant & machinery		
(20% × (94 000 – 33 840))	12 032 (1)	
Loose tools		
(2 650 + 310 – 2 740)	<u>220</u> (1)	<u>67 540</u>
		344 040 (1)OF
Opening work in progress		<u>11 020</u> (1)
		355 060
Closing work in progress		<u>12 060</u> (1)
Cost of production		<u>343 000</u> (1)OF

**Horizontal format acceptable**

[14]

(b)

Nasir Manufacturing Limited  
Income Statement for the year ended 31 January 2014

	\$	\$	\$
Revenue			539 000
Cost of sales			
Opening inventory finished goods		18 100 (1)	
Cost of production		343 000 (1)OF	
Purchases finished goods	16 900 (1)		
Less Returns	<u>200</u> (1)	<u>16 700</u>	
		377 800	
Less Closing inventory finished goods		<u>19 300</u> (1)	<u>358 500</u>
Gross profit			<u>180 500</u> (1)OF

**Horizontal format acceptable**

[6]

[Total: 20]

<b>Page 3</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2014</b>	<b>0452</b>	<b>21</b>

2 (a)

Leroy Smith Stationery account			
		\$	\$
2013			2013
April 1	Balance b/d	144 (1)	Aug 1
June 30	Bank	368 (1)	Drawings
			26 (1)
			2014
			Mar 31
			Income
			statement
			394 (1)
			Balance c/d
			<u>92 (1)</u>
		<u>512</u>	<u>512</u>
2014			
April 1	Balance b/d	92 (1)	

**Three column running balance format acceptable [6]**

(b) The business entity principle has been applied when the stationery taken for personal use was transferred from the stationery account to the drawings account. [2]

(c)

Leroy Smith Rent and rates account			
		\$	\$
2013			2013
April 1	Balance (rates) b/d	380 (1)	April 1
2014			Balance (rent) b/d
Mar 31	Bank (rates)	2470 } (1)	260 (1)
	Bank (rent)	3380 }	2014
			Mar 31
			Income
			statement
			5400 (1)
			Balance (rates) c/d
			<u>570 (1)</u>
		<u>6230</u>	<u>6230</u>
2014			
April 1	Balance b/d	570 (1)	

**Three column running balance format acceptable [6]**

(d) The accruals principle has been applied when only the expense for the year was transferred to the income statement. [2]

(e) Capital receipts

Amounts received which do not form part of the day-to-day trading activities. (1)

Capital expenditure

Money spend on acquiring improving and installing non-current assets. (1)

Revenue receipts

Amounts received in the day-to-day trading activities from revenue and other items of income. (1)

Revenue expenditure

Money spent on running a business on a day-to-day basis. (1)

[4]

<b>Page 4</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2014</b>	<b>0452</b>	<b>21</b>

(f)

non-current assets at 31 March 2014		profit for the year ended 31 March 2014	
Overstated	Understated	Overstated	Understated
✓ (1)		✓ (1)	

[2]

[Total: 22]

- 3 (a) (i) The straight line method of depreciation uses the same amount of depreciation each year. [1]
- (ii) This method is used where each year is expected to benefit equally from the use of the asset. [1]
- (b) (i) The reducing balance method of depreciation uses the same percentage rate of depreciation each year, but it is calculated on the book value at the end of each year. [1]
- (ii) This method is used where the greater benefits from the use of the asset will be gained in the early years of its life. [1]
- (c) 1 Computer equipment – reducing balance method (1)  
 2 Buildings – straight line method (1)  
 3 Motor vehicle – reducing balance method (1) [3]
- (d) (i) The asset is valued at the end of each year and the difference between the opening and closing value is the depreciation for the year. [1]
- (ii) This method is used where it is impractical or difficult to maintain detailed records of the asset. [1]
- (iii) Loose tools, packing cases, small items of equipment  
**Or other suitable example**  
**Any 1 example (1)** [1]

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2014</b>	<b>0452</b>	<b>21</b>

(e)

Tony Yeo Equipment account			
		\$	\$
2013			2013
May 1	Balance b/d	8 600	Oct 31
Nov 1	New2You	3 400 (1)	Disposals
			2 000 (1)
		<u>12 000</u>	2014
			Apl 30
			Balance c/d
			<u>10 000</u>
			<u>12 000</u>
2014			
May 1	Balance b/d	10 000 (1)OF	
			[3]
Provision for depreciation of equipment account			
		\$	\$
2013			2013
Oct 31	Disposals	800 (2)	May 1
2014			Balance b/d
Apl 30	Balance c/d	4 120	3 260
		<u>4 920</u>	2014
			Apl 30
			Income statement
			20% × 6 600
			1 320 (1)
			20% × 3 400 × ½
			<u>340 (1)</u>
			<u>4 920</u>
			2014
			May 1
			Balance b/d
			4 120 (1)OF
			[5]
Disposal of equipment account			
		\$	\$
2013			2013
Oct 31	Equipment	2 000 (1)OF	Oct 31
			Prov for dep
			800 (1)OF
			Cash
			750 (1)
		<u>2 000</u>	2014
			Apl 30
			Income statement
			<u>450 (1)OF</u>
			<u>2 000</u>
			[4]

**Three column running balance format acceptable**

[Total: 22]

- 4 (a)  $\$30\,000 \times 5\% = \$1\,500$  (1)
- $\$50\,000 \times 6\% = \$3\,000$  (1)
- $\$70\,000 \times 8\% = \$5\,600$  (1) [3]

- (b) To indicate that part of the profit is for long term use within the company and is not available for distribution. [1]

		\$	\$
(c)	Profit before interest and dividends		18 600
	Less Debenture interest	1 500 (1)	
	Preference share dividend	3 000 (1)	
	Ordinary share dividend	5 600 (1)	
	Transfer to general reserve	<u>4 000 (1)</u>	<u>14 100</u>
	Profit retained in the year		<u>4 500 (1)OF</u>
			[5]

<b>Page 6</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2014</b>	<b>0452</b>	<b>21</b>

- (d) LWS Ltd  
Extract from Statement of Financial Position at 30 April 2014  
\$
- |  |        |      |     |
|--|--------|------|-----|
| Capital and reserves                       |        |      |     |
| 140 000 Ordinary shares of \$0.50 each     | 70 000 | }    |     |
| 50 000 6% Preference shares of \$1 each    | 50 000 | }(1) |     |
| General reserve                            | 4 000  | (1)  |     |
| Retained profits (7 500 (1) + 4 500 (1)OF) | 12 000 |      | [4] |
- (e) Non-current liabilities [1]
- (f) (i) Current liabilities [1]
- (ii) \$750 [1]
- [Total: 16]
- 5 (a) To ensure that the totals of the trial balance agree (1)  
To allow draft financial statements to be prepared (1) [2]

(b)

Uzma Khan  
Journal

		Debit \$	Credit \$	
1	Suspense Rent Correction of error of transposition	270	270	(1) (1) (1)
2	Drawings Wages Correction of error, drawings debited to wages	400	400	(1) (1) (1)
3	Discount allowed Suspense Correction of error, discount not transferred to ledger	43	43	(1) (1) (1)
4	Mona Suspense Amina Correction of error, receipt from Amina \$2000 entered as \$200 in Mona's account	200 1800	2000	(1) (1) (1) (1)

4	<b>Alternative presentation</b>			
	Mona Suspense	200	200	(1) }
	Suspense Amina	2000	2000	} (1) (1)
	Correction of error, receipt from Amina \$2000 entered as \$200 in Mona's account			(1)

[13]

(c)

Error	Effect on profit for the year		
	Overstated \$	Understated \$	No effect
2		400 (2)	
3	43 (2)		
4			No effect (2)

[6]

[Total: 21]

Page 8	Mark Scheme	Syllabus	Paper
	IGCSE – May/June 2014	0452	21

6 (a)

Ratio	Year ended 31 March 2014
percentage of gross profit to revenue (sales)	31.11 % (2)
percentage of profit for the year to revenue (sales)	7.78 % (2)OF
current ratio	1.09 : 1 (2)
quick ratio	0.69 : 1 (2)

[8]

Calculations

Percentage of gross profit to revenue

$$\frac{450000 - 310000 (1)}{450000} \times \frac{100}{1} = 31.11\% (1)$$

Percentage of profit for the year to revenue

$$\frac{140000 \text{ O/F} - 105000 (1) \text{ OF}}{450000} \times \frac{100}{1} = 7.78\% (1) \text{ OF}$$

Current ratio

$$(21500 + 100 + 37400) : (36800 + 12200 + 5000) (1) = 1.09 : 1 (1)$$

Quick ratio

$$(100 + 37400) : (36800 + 12200 + 5000) (1) = 0.69 : 1 (1)$$

(b) Increase in selling price

Reduction in trade discount allowed to customers

Selling at a higher mark-up

Decrease in cost price

Increase in trade discount allowed by suppliers

Taking advantage of bulk buying

**Or other suitable reason based on answer to (a)**

**Any 2 reasons (1) each**

[2]

(c) Year ended 31 March 2013 (1)

In 2013 the expenses were 17.85% of revenue: in 2014 the expenses were 23.33% of revenue. (2)

**Or suitable answer based on answers to (a)**

[3]



<b>Page 9</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>IGCSE – May/June 2014</b>	<b>0452</b>	<b>21</b>

(d)

	Increase	Decrease	No effect
Cheque paid to credit supplier			✓ (1)
Goods taken for own use		✓ (1)	
Purchase of non-current asset on credit		✓ (1)	

[3]

(e) Unsatisfied (1)

The ratio of liquid assets to current liabilities has fallen from 0.90:1 to 0.69:1. (1)

She cannot pay immediate liabilities from liquid assets. (1)

**Or suitable answer based on answer to (a)**

[3]

[Total: 19]