CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2014 series

0452 ACCOUNTING

0452/23 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.

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			124 600	**(1)**
			148 100	
Closing inventory of raw materials			26 100	
			122 000	**(1)**
Direct wages (136 000 + 2 200)			138 200	**(1)**
Direct expenses			16 300	**(1)**
Prime cost			276 500	**(1)**
Factory overheads				
Wages of factory supervisors	31 400	**}**		
General factory expenses	19 208	**}(1)**		
Rates & insurance (¾ × (6 360 – 120))	4 680	**(2)**		
Depreciation Plant & machinery				
(20% × (94 000 – 33 840)	12 032	**(1)**		
Loose tools				
(2 650 + 310 – 2 740)	220	**(1)**	67 540	
			344 040	**(1)OF**
Opening work in progress			11 020	**(1)**
			355 060	
Closing work in progress			12 060	**(1)**
Cost of production			343 000	**(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	200	**(1)**	16 700			
			377 800			
Less Closing inventory finished goods			19 300	**(1)**	358 500	
Gross profit					180 500	**(1)OF**

Horizontal format acceptable **[6]**

[Total: 20]

2 (a)

Leroy Smith
Stationery account

Date		Details	$		Date		Details	$	
2013					2013				
April	1	Balance b/d	144	**(1)**	Aug	1	Drawings	26	**(1)**
June	30	Bank	368	**(1)**	2014				
					Mar	31	Income statement	394	**(1)**
							Balance c/d	92	**(1)**
			512					512	
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

Date		Details	$		Date		Details	$	
2013					2013				
April	1	Balance (rates) b/d	380	**(1)**	April	1	Balance (rent) b/d	260	**(1)**
2014					2014				
Mar	31	Bank (rates)	2470	**} (1)**	Mar	31	Income statement	5400	**(1)**
		Bank (rent)	3380	**}**			Balance (rates) c/d	570	**(1)**
			6230					6230	
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]**

(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]**

(e)

Tony Yeo
Equipment account

		$				$	
2013				2013			
May 1	Balance b/d	8600		Oct 31	Disposals	2000	**(1)**
Nov 1	New2You	3400	**(1)**	2014			
				Apl 30	Balance c/d	10000	
		12000				12000	
2014							
May 1	Balance b/d	10000	**(1)OF**				**[3]**

Provision for depreciation of equipment account

		$				$	
2013				2013			
Oct 31	Disposals	800	**(2)**	May 1	Balance b/d	3260	
2014				2014			
Apl 30	Balance c/d	4120		Apl 30	Income statement		
					20% × 6600	1320	**(1)**
					20% × 3400 × ½	340	**(1)**
		4920				4920	
				2014			
				May 1	Balance b/d	4120	**(1)OF** **[5]**

Disposal of equipment account

		$				$	
2013				2013			
Oct 31	Equipment	2000	**(1)OF**	Oct 31	Prov for dep	800	**(1)OF**
					Cash	750	**(1)**
				2014			
				Apl 30	Income statement	450	**(1)OF**
		2000				2000	**[4]**

Three column running balance format acceptable

[Total: 22]

4 (a) $30 000 × 5% = $1 500 **(1)**

$50 000 × 6% = $3 000 **(1)**

$70 000 × 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	4 000	**(1)**	14 100	
Profit retained in the year			4 500	**(1)OF** **[5]**

(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	**Alternative presentation** Mona Suspense Suspense Amina Correction of error, receipt from Amina $2000 entered as $200 in Mona's account	 200 2000	 200 2000	 **(1)** **}** **} (1)** **(1)** **(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]

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

$$\frac{450\,000 - 310\,000 \ \mathbf{(1)}}{450\,000} \times \frac{100}{1} = 31.11\% \ \mathbf{(1)}$$

Percentage of profit for the year to revenue

$$\frac{140\,000 \ \mathbf{O/F} - 105\,000 \ \mathbf{(1)OF}}{450\,000} \times \frac{100}{1} = 7.78\% \ \mathbf{(1)OF}$$

Current ratio
(21 500 + 100 + 37 400) : (36 800 + 12 200 + 5 000) **(1)** = 1.09 : 1 **(1)**

Quick ratio
(100 + 37 400) : (36 800 + 12 200 + 5 000) **(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]**

(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]