

MARK SCHEME for the October/November 2007 question paper

0452/03	0452 ACCOUNTING Paper 3, maximum raw mark 100
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- 1 (a) The petty cashier starts each period with the same amount of money (1) (the imprest).
At the end of the period the chief cashier will make up the cash remaining so that it is equal to the imprest amount (1) [2]

(b)

John Paihia – Petty Cash Book

Total Received	Date	Details	Total Paid	Postages & stationery	Travelling expenses	Cleaning	Ledger accounts
\$	2007		\$	\$	\$	\$	\$
48(1)	Sept 1	Balance b/d					
252(1)	6	Cash/Bank					
	11	Postage stamps	15	15 (1)			
	19	Paul Ahipara	95				95 (1)
	23	Cleaner	24			24 (1)	
	25	Travelling expenses	9		9 (1)		
	29	Stationery	72	72 (1)			
6(1)	29	Refund on stationery					
			<u>215 (1)</u>	<u>87</u>	<u>9</u>	<u>24</u>	<u>95</u>
	30	Balance c/d	91				
<u>306</u>			<u>306</u>				
91(1)O/F	Oct 1	Balance b/d					
209(1)O/F		Cash/Bank					

Dates (1)

4 O/F totals of analysis columns (1)

2 Matching O/F totals of Total Columns (1)

[14]

- (c) At the end of each period (1) the totals of the analysis columns for expenses (1) are debited to the appropriate expense account (1)

The individual items in the ledger accounts column are debited to the appropriate creditors' accounts (1) [4]

[Total: 20]

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- 2 (a) If stock is not valued at the lower figure then both the net profit and the current assets may be overstated (2)
Or
It is the application of the principle of prudence (2) [2]

(b)

Red Barn Manufacturing
Manufacturing Account for the year ended 31 August 2007

	\$	\$
Cost of raw material		
Opening stock of raw material	43 500 (1)	
Purchases	<u>576 000 (1)</u>	619 500
Less Closing stock of raw material		<u>37 000 (1)</u>
		582 500
Direct factory wages		<u>473 600 (1)</u>
Prime cost		1 056 100 (1)
Factory indirect wages	197 600}	
Factory general expenses	335 500} (1)	
Depreciation factory machinery	<u>32 000 (1)</u>	<u>565 100</u>
		1 621 200 (1)O/F
Add Opening work in progress		<u>21 400 (1)</u>
		1 642 600
Less Closing work in progress		<u>15 800 (1)</u>
Cost of production		<u>1 626 800 (1)O/F</u>

Horizontal format acceptable

[11]

(c)

Red Barn Manufacturing
Trading Account for the year ended 31 August 2007

	\$	\$
Sales		2 249 400 (1)
Less Cost of sales		
Opening stock of finished goods	142 100 (1)	
Cost of production	<u>1 626 800 (1)O/F</u>	
	1 768 900	
Less Closing stock of finished goods	<u>163 500 (1)</u>	<u>1 605 400</u>
Gross Profit		<u>644 000 (1)O/F</u>

Horizontal format acceptable

[5]

- (d) Rate of stock turnover $\frac{1605\ 400\ O/F}{(142\ 100 + 163\ 500) \div 2} = 10.51\ \text{times (1)O/F}$ [2]

- (e) Reduce stock levels (1)
Generate more sales activity (1) [2]

[Total: 22]

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3 (a)

Al Shuhada Music Club
Income and Expenditure Account for the year ended 30 September 2007

	\$	\$
Income		
Subscriptions (9550 + 350 (1) – 150 (1))		9 750
Concert – Ticket sales	3 000	
Less Expenses	<u>2 730</u>	<u>270 (1)</u>
		10 020
 Expenditure		
Property tax (3130 – 400 (1) – 240 (1))	2 490	
Insurance	1 780}	
General expenses	5 820} (1)	
Bank charges	210 (1)	
Depreciation – musical instruments (9800 + 750 – 8700)	<u>1 850 (1)</u>	<u>12 150</u>
Deficit for the year		<u>2 130 (1)O/F</u>

Horizontal format acceptable

[9]

(b) Either

Opening bank balance (1)

This is neither income nor expenditure for the year as it represents the bank overdraft on 1 October 2006. (1)

Or

Purchase of new instruments (1)

This is not regarded as revenue expenditure as it is the purchase of a fixed asset. (1) [2]

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(c)

Al Shuhada Music Club
Balance Sheet at 30 September 2007

	\$	\$
Fixed Assets		
Premises at cost		32 000
Musical instruments at valuation		<u>8 700</u>
		40 700 (1)
Current Assets		
Property tax prepaid	240 (1)	
Current Liabilities		
Bank overdraft (15830 – 12550 (1))		(3 250)
+ bank charges 210 (1)	<u>3 490</u>	<u>37 450</u>
Accumulated Fund		
Opening balance		39 580
(32000 + 9800 + 150 – 350 – 1620 – 400)		
Any 2 correct items (1) to max of (3)		
Less Deficit for the year		<u>2 130 (1)O/F</u>
		<u>37 450</u>

[8]

[Total: 19]

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- 4 (a) Ann and Fay lose a degree of control
 Ann and Fay will have to share any future profits with Kim
 The risk of conflict of opinion is increased
 May involve extra costs (accommodation/staff support etc.)

Or other acceptable point

Any 1 point (1) [1]

(b) (i) To avoid disagreements/misunderstandings later [2]

(ii) Interest on capital [1]

(iii) Partner's salary [1]

(c) (i)

Goodwill account

2007	\$	2007	\$
Oct 1 Ann Capital	10 200 (1)	Oct 1 Ann Capital	8 500 (1)
Fay Capital	6 800 (1)	Fay Capital	5 100 (1)
	<u>17 000</u>	Kim Capital	<u>3 400 (1)</u>
			<u>17 000</u>

[5]

Alternative presentation

Goodwill account

	Debit	Credit	Balance
2007	\$	\$	\$
Oct 1 Ann Capital	10 200 (1)		10 200 Dr
Fay Capital	6 800 (1)		17 000 Dr
Ann Capital		8 500 (1)	8 500 Dr
Fay Capital		5 100 (1)	3 400 Dr
Kim Capital		3 400 (1)	0

[5]

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(c) (ii)

Capital accounts

	Ann	Fay	Kim		Ann	Fay	Kim
	\$	\$	\$	2007	\$	\$	\$
2007				2007			
Oct 1 Goodwill	8500	5100	3400	Oct 1 Balances b/d	30000	15000	
	(1)O/F	(1)O/F	(1)O/F		(1)	(1)	
Balances c/d	31700	16700	7600	Goodwill	10200	6800	
					(1)O/F	(1)O/F	
				Bank			10000
							(1)
				Office Eqp.			1000
							(1)
	<u>40200</u>	<u>21800</u>	<u>11000</u>		<u>40200</u>	<u>21800</u>	<u>11000</u>
				Oct 2 Balances b/d	31700	16700	7600
					(1)O/F	(1)O/F	(1)O/F

Alternatively allow three separate "T" accounts

[12]

[Total: 22]

(c) (ii) Alternative presentation

Ann Capital account

	Debit	Credit	Balance
	\$	\$	\$
2007			
Oct 1 Balance		30 000 (1)	30 000 Cr
Goodwill		10 200 (1)O/F	40 200 Cr
Goodwill	8 500 (1)O/F		31 700 Cr (1)O/F

Fay Capital account

	Debit	Credit	Balance
	\$	\$	\$
2007			
Oct 1 Balance		15 000 (1)	15 000 Cr
Goodwill		6 800 (1)O/F	21 800 Cr
Goodwill	5 100 (1)O/F		16 700 Cr (1)O/F

Kim Capital account

	Debit	Credit	Balance
	\$	\$	\$
2007			
Oct 1 Bank		10 000 (1)	10 000 Cr
Office Eqp.		1 000 (1)	11 000 Cr
Goodwill	3 400 (1)O/F		7 600 Cr (1)O/F

[12]

[Total: 22]

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5 (a) (i) Gross profit = 72 000 – (5200 + 54 400 – 4900) = 17 300 (1)

$$\text{Gross profit as \% of sales} = \frac{17\,300}{72\,000} \times \frac{100}{1} = 24.03\% \text{ (1)O/F} \quad [2]$$

- (ii) Look for cheaper supplies
 Increase selling prices
 Change proportions of different types of goods sold

Or other acceptable point

Any 2 points (1) each [2]

(b) (i) Net profit = 17 300 (O/F) – (15% x 72 000) = 6500 (1)

$$\text{Net profit as \% of sales} = \frac{6\,500}{72\,000} \text{ (O/F)} \times \frac{100}{1} = 9.03\% \text{ (1)O/F} \quad [2]$$

- (ii) Increase gross profit e.g. increase profit margin, increase selling prices etc.
 Increase sales
 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 2 points (1) each [2]

(c) (i) Comparability [1]

(ii) Information provided in financial statements must be reliable (1)

Either

It must be capable of being depended upon as a faithful representation of the underlying transactions and events it represents (1)

Or

It must be capable of being independently verified (1)

Or

It must be free from bias (1)

Or

It must be free from significant errors (1)

Or

It must be prepared with suitable caution being applied to any judgements and estimates (1) [2]

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- (d) Bank manager
 Assessment of prospects of any requested loan/overdraft repaid when due
 Assessment of prospects of any interest on loan/overdraft being paid when due
 Assessment of the security available to cover any loan/overdraft

Lenders

- Assessment of prospects of any requested loan when due
 Assessment of prospects of any interest on loan being paid when due
 Assessment of the security available to cover any loan

Creditor for goods

- Assessment of the liquidity position
 Identifying how long the business takes to pay creditors
 Identifying future prospects of the business
 Identifying what credit limit is reasonable

Managers (if any)

- Assessment of past performance
 Basis of future planning
 Control the activities of the business
 Identifying areas where corrective action is required

**Or other suitable interested persons e.g. trades unions/employees/
 government bodies/take-over-bidders/competitors etc**

Three parties to be identified – (1) each giving a total of (3)

One acceptable reason required in each case – (1) giving a total of (3)

[6]

[Total: 17]