Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

ACCOUNTING
0452/23
May/June 2014
1 hour 45 minutes

Candidates answer on the Question Paper.
No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
DO NOT WRITE IN ANY BARCODES.

Answer all questions.
You may use a calculator.

Where layouts are to be completed, you may not need all the lines for your answer.
The businesses mentioned in this Question Paper are fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of 20 printed pages.
1. The financial year of Nasir Manufacturing Limited ends on 31 January.

The following information is available. 

$\begin{align*}
\text{At 1 February 2013} & \\
\text{Plant and machinery at cost} & 94000 \\
\text{Office fixtures and equipment at cost} & 34000 \\
\text{Loose tools at valuation} & 2650 \\
\text{Provision for depreciation of plant and machinery} & 33840 \\
\text{Provision for depreciation of office fixtures and equipment} & 12240 \\
\text{Inventories:} & \\
\text{Raw materials} & 23500 \\
\text{Work in progress} & 11020 \\
\text{Finished goods} & 18100 \\
\end{align*}$

For the year ended 31 January 2014

\begin{align*}
\text{Revenue} & 539000 \\
\text{Purchases:} & \\
\text{Raw materials} & 124600 \\
\text{Finished goods} & 16900 \\
\text{Purchases returns:} & \\
\text{Finished goods} & 200 \\
\text{Wages and salaries:} & \\
\text{Factory workers} & 136000 \\
\text{Factory supervisors} & 31400 \\
\text{Administrative and sales staff} & 61500 \\
\text{Expenses:} & \\
\text{Direct expenses} & 16300 \\
\text{General factory expenses} & 19208 \\
\text{General office expenses} & 8900 \\
\text{Rates and insurance} & 6360 \\
\end{align*}$

**Additional information**

1. On 31 January 2014

\begin{align*}
\text{Inventories:} & \\
\text{Raw materials} & 26100 \\
\text{Work in progress} & 12060 \\
\text{Finished goods} & 19300 \\
\text{Direct wages accrued} & 2200 \\
\text{Sales staff wages accrued} & 380 \\
\text{Rates prepaid} & 120 \\
\end{align*}$

2. The rates and insurance are to be apportioned $\frac{3}{4}$ to the factory and $\frac{1}{4}$ to the office.

3. The plant and machinery and office fixtures and equipment are being depreciated at 20% per annum using the reducing (diminishing) balance method.

4. During the year ended 31 January 2014 loose tools costing $310 were purchased. On 31 January 2014 loose tools were valued at $2740.
REQUIRED

(a) Prepare the manufacturing account of Nasir Manufacturing Limited for the year ended 31 January 2014.

Nasir Manufacturing Limited
Manufacturing Account for the year ended 31 January 2014
(b) Prepare the trading account section of the income statement of Nasir Manufacturing Limited to show the gross profit for the year ended 31 January 2014.

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

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[Total: 20]
2 Leroy Smith is a trader. His financial year ends on 31 March.

He provided the following information about stationery for the year ended 31 March 2014.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>April</td>
<td>Inventory of stationery</td>
<td>144</td>
</tr>
<tr>
<td>June</td>
<td>Purchased stationery and paid by cheque</td>
<td>368</td>
</tr>
<tr>
<td>Aug</td>
<td>Took stationery for personal use</td>
<td>26</td>
</tr>
</tbody>
</table>

2014
Mar    | Inventory of stationery                         | 92   |

REQUIRED

(a) Write up the stationery account as it would appear in Leroy Smith’s ledger for the year ended 31 March 2014. Balance the account and bring down the balance on 1 April 2014.

Leroy Smith
Stationery account

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(b) Explain how the business entity principle has been applied in the preparation of the stationery account.

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........................................................................................................................................... [2]
Leroy Smith maintains one combined account for rent and rates. He provided the following information for the year ended 31 March 2014.

On 1 April 2013 two months’ rates, totalling $380, were prepaid and one month’s rent, $260, was accrued.

During the year ended 31 March 2014 the following payments were made by cheque:

<table>
<thead>
<tr>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates 13 months to 30 June 2014</td>
<td>2470</td>
</tr>
<tr>
<td>Rent 13 months to 31 March 2014</td>
<td>3380</td>
</tr>
</tbody>
</table>

**REQUIRED**

(c) Write up the rent and rates account as it would appear in Leroy Smith’s ledger for the year ended 31 March 2014. Balance the account and bring down the balance on 1 April 2014.

<table>
<thead>
<tr>
<th>Date</th>
<th>Details</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>............</td>
<td>----------------------------------------------</td>
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<td>............</td>
<td>----------------------------------------------</td>
<td>-------</td>
</tr>
</tbody>
</table>

**REQUIRED**

(d) Explain how the accruals (matching) principle has been applied in the preparation of the rent and rates account.

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…………………………………………………………………………………………………………………………………………………………. [2]
(e) Define the following terms.

Capital receipts ....................................................................................................................

Capital expenditure ............................................................................................................

Revenue receipts ................................................................................................................

Revenue expenditure .........................................................................................................

(f) On 31 March 2014 Leroy Smith discovered that an item of revenue expenditure had been recorded as capital expenditure.

Complete the following table by putting ticks (✓) in the correct columns to indicate the effect of this error on the non-current assets and the profit for the year.

<table>
<thead>
<tr>
<th>non-current assets at 31 March 2014</th>
<th>profit for the year ended 31 March 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overstated</td>
<td>Understated</td>
</tr>
</tbody>
</table>

[2]

[Total: 22]
3 (a) (i) Describe the straight line method of depreciation.

........................................................................................................................................ [1]

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........................................................................................................................................ [1]

(ii) State the circumstances when this method of depreciation may be used.

........................................................................................................................................ [1]

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(b) (i) Describe the reducing (diminishing) balance method of depreciation.

........................................................................................................................................ [1]

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........................................................................................................................................ [1]

(ii) State the circumstances when this method of depreciation may be used.

........................................................................................................................................ [1]

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(c) State which of the above methods of depreciation would be most appropriate to use for each of the following non-current assets.

1 Computer equipment ........................................................................................................ [3]

2 Buildings ............................................................................................................................

3 Motor vehicle ..................................................................................................................... [3]

(d) (i) Describe the revaluation method of depreciation.

........................................................................................................................................ [1]

........................................................................................................................................

........................................................................................................................................ [1]
(ii) State the circumstances when this method of depreciation may be used.

........................................................................................................................................ [1]

(iii) Suggest one non-current asset which may be depreciated using this method.

........................................................................................................................................ [1]

Tony Yeo is in business. His financial year ends on 30 April. He depreciates his non-current assets each year.

On 1 May 2013 the balances in Tony Yeo’s ledger included the following:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment at cost</td>
<td>8600</td>
</tr>
<tr>
<td>Provision for depreciation of equipment</td>
<td>3260</td>
</tr>
</tbody>
</table>

The equipment is being depreciated at 20% per annum using the straight line method, calculated from the date of purchase. No depreciation is to be charged in the year of disposal.

On 31 October 2013 equipment which had cost $2000 on 1 May 2011 was sold for $750 cash.

On 1 November 2013 equipment costing $3400 was purchased on credit from New2You.

REQUIRED

(e) Write up the following accounts in the ledger of Tony Yeo for the year ended 30 April 2014. Balance the accounts where necessary and bring the balances down on 1 May 2014.

Tony Yeo

Equipment account

........................................................................................................................................ [3]
Provision for depreciation of equipment account

Disposal of equipment account

[Total: 22]
The financial year of LWS Limited ends on 30 April.

The following information was available on 30 April 2014.

- **Paid-up share capital**: 140,000 ordinary shares of $0.50 each
- **Loan capital**: 30,000 5% debentures of $1 each
- **Preference share capital**: 50,000 6% preference shares of $1 each

On 1 May 2013 the retained profits amounted to $7500.

On 1 November 2013 debenture interest for the period 1 May to 31 October 2013 was paid.

On 29 April 2014 the annual preference share dividend was paid.

On 30 April 2014 debenture interest for the period 1 November 2013 to 30 April 2014 was accrued.

On 30 April 2014 the directors recommended a transfer of $4000 to a general reserve and a payment of an ordinary share dividend of 8%.

The profit for the year ended 30 April 2014 **before** interest amounted to $18,600.

**REQUIRED**

(a) Calculate the following.

- Total debenture interest for the year (in $)
- Preference share dividend paid (in $)
- Ordinary share dividend to be paid (in $) [3]

(b) State why the company made a transfer to general reserve.

- [1]
(c) Calculate the profit retained in the year.

(d) Prepare the capital and reserves section of the statement of financial position of LWS Limited at 30 April 2014.

LWS Limited
Extract from Statement of Financial Position at 30 April 2014

Capital and reserves

(e) Name the section of the statement of financial position of LWS Limited at 30 April 2014 in which debentures would appear.

(f) (i) Name the section of the statement of financial position of LWS Limited at 30 April 2014 in which debenture interest would appear.

(ii) State the amount of debenture interest which would appear in the statement of financial position of LWS Limited at 30 April 2014.

[Total: 16]
Question 5 is on the next page.
Uzma Khan runs a dress-making business. She maintains a full set of accounting records. Her financial year ends on 28 February.

On 28 February 2014 she opened a suspense account and entered a credit balance of $2027.

REQUIRED

(a) State two reasons why it was necessary for Uzma Khan to open a suspense account.

1. ____________________________

2. ____________________________  [2]

Uzma Khan discovered the following errors had been made in her accounting records.

1. Rent of premises, $250, had been debited to the rent account as $520.

2. $400 withdrawn from the bank for personal use had been debited to the wages account.

3. The total of the discount allowed column in the main cash book, $43, had not been transferred to the discount allowed account in the ledger.

4. $2000 received from Amina had been credited to the account of Mona as $200.
REQUIRED

(b) Prepare the entries in Uzma Khan’s journal to correct the four errors on page 14. Narratives are required.

<table>
<thead>
<tr>
<th></th>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

[13]
(c) Complete the table below to show what effect each of the four errors on page 14 had on Uzma Khan’s profit for the year ended 28 February 2014.

The first one has been completed as an example.

<table>
<thead>
<tr>
<th>Error</th>
<th>Effect on profit for the year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Overstated $</td>
</tr>
<tr>
<td>1</td>
<td>$270</td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

[Total: 21]
Question 6 is on the next page.
Maria Khumalo is a trader. Her financial year ends on 31 March.

She provided the following summary of her assets and liabilities on 31 March 2014.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>145 000</td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>35 000</td>
<td>180 000</td>
</tr>
<tr>
<td>Trade payables</td>
<td></td>
<td>36 800</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td></td>
<td>12 200</td>
</tr>
<tr>
<td>Short term loan</td>
<td></td>
<td>5 000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>234 000</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td>175 000</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>21 500</td>
</tr>
<tr>
<td>Petty cash</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td>37 400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>234 000</td>
</tr>
</tbody>
</table>

For the year ended 31 March 2014:

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>450 000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>310 000</td>
</tr>
<tr>
<td>Expenses</td>
<td>105 000</td>
</tr>
</tbody>
</table>

Maria Khumalo wishes to compare the performance of her business for the year ended 31 March 2014 with that of the previous financial year.

**REQUIRED**

(a) Complete the table below to show the ratios for Maria Khumalo's business for the year ended 31 March 2014.

Calculations should be correct to two decimal places.

You may use the space on the following page for your workings.

<table>
<thead>
<tr>
<th></th>
<th>Year ended 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio</td>
<td>2013</td>
</tr>
<tr>
<td>percentage of gross profit to revenue (sales)</td>
<td>28.10%</td>
</tr>
<tr>
<td>percentage of profit for the year to revenue (sales)</td>
<td>10.25%</td>
</tr>
<tr>
<td>current ratio</td>
<td>1.95 : 1</td>
</tr>
<tr>
<td>quick ratio</td>
<td>0.90 : 1</td>
</tr>
</tbody>
</table>
(b) Suggest two reasons for the change in the percentage of gross profit to revenue (sales).

1

........................................................................................................................................

........................................................................................................................................  [2]

2

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........................................................................................................................................

(c) State the year in which Maria Khumalo had better control over her expenses. Give a reason for your answer.

Year ended 31 March ...........................................................................................................

Reason ................................................................................................................................

........................................................................................................................................  [3]

Question 6(d) and (e) are on the next page.
(d) Complete the following table by placing a tick (√) in the correct column to show how each of the following transactions would affect the current ratio.

The first one has been completed as an example.

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Increase</th>
<th>Decrease</th>
<th>No effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receipt of long term loan</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cheque paid to credit supplier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods taken for own use</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of non-current asset on credit</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[3]

(e) State whether Maria Khumalo would be satisfied with the change in her liquidity position. Give a reason for your answer.

Satisfied? ........................................................................................................................................................................

Reason ..................................................................................................................................................................................

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[3]

[Total: 19]