MARK SCHEME for the October/November 2012 series

0452 ACCOUNTING
0452/13  Paper 1, 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 October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.
1 Key
   (a)  D  [1]
   (b)  C  [1]
   (c)  B  [1]
   (d)  B  [1]
   (e)  A  [1]
   (f)  A  [1]
   (g)  C  [1]
   (h)  C  [1]
   (i)  B  [1]
   (j)  A  [1]
   [Total: 10]

2 (a) Cash book, petty cash book, sales journal, sales returns journal, purchases journal, purchases returns journal, (day books), journal  [any two, 1 mark each]  [2]

   (b)

<table>
<thead>
<tr>
<th></th>
<th>Income</th>
<th>Expense</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debenture interest</td>
<td></td>
<td>✓ (1)</td>
</tr>
<tr>
<td>Factory overheads</td>
<td></td>
<td>✓ (1)</td>
</tr>
<tr>
<td>Commissions earned</td>
<td></td>
<td>✓ (1)</td>
</tr>
</tbody>
</table>

   [3]

   (c) To see the liquidity position of the business (1) and if his account will be paid (1).  [2]

   (d) Error (of addition, account on incorrect side, transposition, balance missing), single sided entry, entry made twice.  [any two, 2 marks each]  [4]
(e) | Increase | Reduce | Have no effect |
---|---|---|---|
Bank charges | ✓ | | (1) |
Credit Transfer | ✓ | | (1) |
Dishonoured cheque | ✓ | | (1) |

(f) Goodwill, brands, (other acceptable item) [any one] [1]

(g) (i) Error of original entry [1]

(ii) | | Dr $ | Cr $ |
---|---|---|---|
Malik (1) | | 180 | }(1) |
Purchases (1) | | 180 | }

(h) Lindie – provision for doubtful debts

Provision at 1 November 2011 3% × 28 000 = 840 (1)
Provision at 31 October 2012 3% × 32 000 = 960 (1)
Increase = 120 (1)

[or 3% × (32 000 – 28 000) = 120] (3)

[Total: 22]
Prince
Balance Sheet at 30 September 2012

<table>
<thead>
<tr>
<th>Non-current assets</th>
<th>Cost</th>
<th>Provision for Depreciation</th>
<th>Net book value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>3 500</td>
<td>600</td>
<td>2 900</td>
</tr>
<tr>
<td>Motor vehicle</td>
<td>4 500</td>
<td>1 000</td>
<td>3 500</td>
</tr>
<tr>
<td></td>
<td>8 00</td>
<td>1 600</td>
<td>6 400</td>
</tr>
</tbody>
</table>

Current assets
- Inventory: 3 300
- Trade receivables: 3 000
- Bank: 500

Trade payables: 2 700
Other payables: 900

Net current assets: 3 200

Non-current liabilities
- Bank loan repayable 2018: 2 800

Total assets: 6 800

Financed by: Capital

(b) (i) Current ratio = current assets / current liabilities

(ii) \(\frac{3 300 + 3 000 + 500}{2 700 + 900}\) for workings

\[= 1.89 : 1\] (1)OF

(iii) No (1);
Answer is less than 2:1 which is the usual benchmark (1), unable to pay all liabilities (1)

(c) (i) Quick ratio = (current assets – inventory) / current liabilities

(ii) \(\frac{3 000 + 500}{3 600}\) for workings

\[= 0.97 : 1\] (1)OF

(iii) No (1);
Answer is less than 1:1 which is the usual benchmark (1), unable to pay all liabilities (1)

(d) Send statement, other reminders, offer cash discount, charge interest on late accounts, refuse further supplies until paid (and similar comments).

[Any one, 2 marks]

(e) Delaying payment of trade payables, increasing cash/credit sales, reducing credit period for trade receivables, sell fixed assets, introduce extra capital, take out long term loan, reduce drawings, introduce more capital, sell shares. [Any one, 2 marks]

[Total: 25]
4  (a) Inventory means the goods held for resale by a business at any time. [1]

(b) Mirror type | Units in stock | Cost or net realisable value per unit | Total value | $ |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wall mirror</td>
<td>15</td>
<td>55</td>
<td>825</td>
<td>(1)</td>
</tr>
<tr>
<td>Table mirror</td>
<td>50</td>
<td>15</td>
<td>750</td>
<td>(1)</td>
</tr>
<tr>
<td>Hand mirror</td>
<td>36</td>
<td>20</td>
<td>720</td>
<td>(2)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2295</td>
<td>[4]</td>
</tr>
</tbody>
</table>

(c) Mlongo

<table>
<thead>
<tr>
<th>Income statement for the year ended 31 October 2012</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (sales)</td>
<td>8 000 (1)</td>
</tr>
<tr>
<td>Returns inwards</td>
<td>215 (1)</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>7 785</td>
</tr>
<tr>
<td>Inventory at 1 November 2011</td>
<td>1 300 (1)</td>
</tr>
<tr>
<td>Purchases</td>
<td>4 650 (1)</td>
</tr>
<tr>
<td>Carriage Inwards</td>
<td>50 (1)</td>
</tr>
<tr>
<td></td>
<td>6 000</td>
</tr>
<tr>
<td>Inventory at 31 October 2012</td>
<td>2 295 (1)OF</td>
</tr>
<tr>
<td>Gross profit</td>
<td>3 705</td>
</tr>
<tr>
<td>Expenses</td>
<td>4 080</td>
</tr>
<tr>
<td>Carriage outwards</td>
<td>100 (1)</td>
</tr>
<tr>
<td>Other operating expenses (680 + 120)</td>
<td>800 (1)</td>
</tr>
<tr>
<td>Rent (780 – 260)</td>
<td>520 (1)</td>
</tr>
<tr>
<td></td>
<td>1 420</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>2 660</td>
</tr>
</tbody>
</table>

(d) (i) Rate of inventory turnover = cost of sales / average inventory [1]
(ii) Rate of inventory turnover 2.1 (1) times (1) [2]

(e) Rate of inventory turnover will increase (1) as inventory is being replaced quicker (1) [2]

(f) Luxury goods, large scale manufacture (ships, airplanes) [Any one] [1]

[Total: 20]
5 (a) The costs and expenses of an accounting period must be matched against the revenue (of the same period). [2]

(b) Joolia

Water account

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td>241.60</td>
</tr>
<tr>
<td>10 July</td>
<td>Bank</td>
<td>58.50</td>
</tr>
<tr>
<td>12 August</td>
<td>Bank</td>
<td>75.00</td>
</tr>
<tr>
<td>14 Sept</td>
<td>Bank</td>
<td>45.80</td>
</tr>
<tr>
<td>30 Sept</td>
<td>Balance c/d</td>
<td>62.30</td>
</tr>
<tr>
<td>30 Sept</td>
<td>Income statement</td>
<td>183.10</td>
</tr>
<tr>
<td>1 October</td>
<td>Balance b/d</td>
<td>62.30</td>
</tr>
</tbody>
</table>

+ (1) for all dates correct [5]

(c) Profit will be too high as accrued wages have not been included in expenses for the period. [1]

(d) Purchases (Ledger) [1]

(e) 7 September Bank
Explanation: Amount paid to HiClass Foods Ltd for purchases (on credit/amOUNTS due) (1)
Double Entry: Credit Bank Account (1)

7 September Discount
Explanation: Amount claimed as discount for prompt payment (1)
Double Entry: Credit Discount Received Account (1)

12 September Purchases
Explanation: Amount bought on credit from HiClass Foods Ltd (1)
Double Entry: Debit Purchases Account (1)

15 September Purchase Returns
Explanation: Goods returned to HiClass Foods Ltd as unsuitable/not required (1)
Double Entry: Credit Purchase Returns Account / Returns Outwards (1)

30 September Balance c/d
Explanation: Amount owing to HiClass Foods Ltd at end of month (1)
Double Entry: Credit HiClass Foods Ltd (October account) (1) [10]

[Total 19]
6 (a) Ordinary share capital: 100 000 shares @ $1.50 = 150 000 (1)
Preference share capital: 120 000 shares @ $1.00 = 120 000 (1)
Total share capital 270 000 (1) [3]

(b) (i) The total amount the company has requested from shareholders. [2]
(ii) That part of the called up capital for which cash has been received. [2]

c) • Ordinary share dividends vary according to amount of profit made (1) Preference Shares are usually a fixed rate (1)
• If business is wound up Preference shareholders are repaid before Ordinary shares (2).
• Ordinary shares carry voting rights (1), Preference shares usually have no (or less) voting rights (1) [Any two, two marks each] [4]

d) • Ordinary shares are capital (1), Debentures are a long term loans (1)
• Debentures are paid interest (1), Ordinary shares receive dividends (1)
• If company is wound up debentures are repaid before Ordinary shares (2)
  ▪ Debenture holders carry no voting rights (1), Ordinary shares carry voting rights (1) [Any two, 2 marks each] [4]

e) To distribute profit to the shareholders, reward shareholders for investment, to encourage investment. [Any one, 2 marks] [2]

(f) Ordinary shares $1 800 (2)
Preference shares $360 (3) (Allow 2 marks for $720) [5]

(g) Limited liability if business becomes bankrupt
Partners have to work in the business where shareholders may only invest
(Any other suitable comment 2 marks ) [2]

[Total 24]