MARK SCHEME for the October/November 2010 question paper

for the guidance of teachers

0452 ACCOUNTING

0452/22   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 must be read in conjunction with the question papers and the report on the examination.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

1
Robbie McDonald
Income Statement (Trading and Profit and Loss Account) for the year ended
30 September 2010

	$	$	$
Revenue (sales)			216 000 **(1)**
Less Cost of sales			
Opening inventory (stock)		19 500 **(1)**	
Purchases	176 000 **(1)**		
Less Goods for own use	1 900 **(1)**	174 100	
		193 600	
Less Closing inventory (stock)		20 800 **(2)C/F**	
		(1)O/F	
			172 800 **(1)O/F**
Gross profit			43 200 **(2)**
Bad debts recovered			160 **(1)**
Decrease in provision for doubtful debts			
(372 – 352)			20 **(2)**
			43 380
Less Wages		28 200 **(1)**	
Property tax and insurance			
(8900 **(1)** – 600 **(1)**)		8 300	
Administration expenses		4 410 **(1)**	
Bank interest		1 550 **(1)**	
Depreciation Motor vehicles			
(20% × 4800)		960 **(1)**	
Equipment			
(3000 – 2340)		660 **(1)**	44 080
Loss for the year (Net loss)			700 **(1)O/F**

Horizontal format acceptable [20]

[Total: 20]

2 (a) Assist in the location of errors
Provide instant totals of trade receivables (debtors) and trade payables (creditors)
Proves the arithmetical accuracy of the sales/purchases ledgers
Enable a balance sheet to be prepared quickly
Provide a summary of the transactions relating to trade receivables (debtors) and trade payables (creditors)
Provide an internal check on sales/purchases ledgers – may reduce fraud

Or other relevant points

Any 2 points (1) each [2]

(b)   Suzie Chow
                                  Sales ledger control account

2010		$		2010		$	
Sept 1	Balance	21 976	**(1)**	Sept 1	Balance	54	**(1)**
30	Sales	22 800	**(1)**	30	Bank	21 860	**(1)**
	Bank (Dis. Chq)	610	**(1)**		Discount allowed	488	**(1)**
					Sales returns	391	**(1)**
					Bad debts	100	**(1)**
					Contra entry	78	**(1)**
					Balance c/d	22 415	**(1)**
		45 386				45 386	
2010							
Oct 1	Balance b/d	22 415	**(1)**O/F				**[11]**

Alternative presentation

Sales ledger control account

		Debit		Credit		Balance	
2010		$		$		$	
Sept 1	Balances	21 976	**(1)**	54	**(1)**	21 922 Dr	
30	Sales	22 800	**(1)**			44 722 Dr	
	Bank (Dis. Chq.)	610	**(1)**			45 332 Dr	
	Bank			21 860	**(1)**	23 472 Dr	
	Discount allowed			488	**(1)**	22 984 Dr	
	Sales returns			391	**(1)**	22 593 Dr	
	Bad debts			100	**(1)**	22 493 Dr	
	Contra entry			78	**(1)**	22 415 Dr	
						(2) C/F	
						(1) O/F	**[11]**

(c) A contra entry is when an account in the sales ledger is set against an account in the purchases ledger. **(1)** Such an entry is made when a supplier is also a customer of the business and has an account in both ledgers. **(1)**   **[2]**

(d) The sales ledger control account acts as a check on the sales ledger. If there is an error in the sales ledger it will not be revealed by a control account prepared from the individual accounts in that ledger.   **[2]**

(e) $\dfrac{22\,415 \text{ O/F}}{275\,000}\Big\}\text{(1)} \times \dfrac{365}{1} = 29.75 \text{ days} = 30 \text{ days } \textbf{(1)}\text{O/F}$ **[2]**

(f) Offer cash discount for early payment
Charge interest on overdue accounts
Improve credit control
Refuse further supplies on credit until any outstanding balance is paid
Invoice discounting and debt factoring

Or other relevant points
Any 3 points (1) each   **[3]**

                                                                [Total: 22]

3 (a) (i) Nominal (general) ledger **(1)**

    (ii) Purchases ledger **(1)**

    (iii) Nominal (general) ledger **(1)**   **[3]**

(b)

Karnail Singh
Rent account

		$				$	
2010				2009			
July 31	Total paid	1430 **(1)**		Aug 1	Balance b/d	260 **(1)**	
	Balance c/d	420 **(1)**		2010			
				July 31	Income Statement **(1)**		
					(Profit & Loss)	1590 **(1)**	
		1850				1850	
				2010			
				Aug 1	Balance b/d	420 **(1)**O/F	

        [6]

Alternative presentation

Karnail Singh
Rent account

		Debit	Credit	Balance	
		$	$	$	
2009					
Aug 1	Balance		260 **(1)**	260 Cr	
2010					
July 31	Total paid	1430 **(1)**		1170 Dr	
July 31	Income statement **(1)**				
	(Profit & Loss)		1590 **(1)**	420 Cr	
				(2)C/F	
				(1)O/F	

        [6]

(c) The accruals (matching) principle states that revenue of the accounting period must be matched against the costs of the same period. **(1)**
The rent relating to the financial year ended 31 July 2010 is transferred to the income statement (profit and loss account). **(1)** The rent paid during the year relating to the previous year is not included but the rent owing at the end of the year is included. **(1)**   **[3]**

(d) Bank manager
Assessment of prospects of any requested loan/overdraft being 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 being repaid 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

Manager (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. employees, government bodies, competitors, take-over bidders etc

TWO business people to be identified   (1) each

ONE acceptable reason required in each case   (1) each   [4]

(e) (i) Non-financial aspects
Accounts only record information which can be expressed in monetary terms. **(1)**
This means that there are many important factors which influence the performance of a business which will not appear in the financial statements (final accounts) e.g. quality of management, goodwill, skill of workforce etc. **(1)**

(ii) Historical cost
Transactions are always recorded at the actual cost. **(1)**
This means that it can be difficult to compare transactions which have taken place at different times because of the effect of inflation. **(1)**   **[4]**

[Total: 20]

4 (a) Authorised share capital is the maximum amount of share capital a company is allowed to issue. **(2)**

Paid-up share capital is the total amount of capital a company has received from its shareholders. **(2)**   **[4]**

(b) (i) 4% × 25 000 shares of $1 each **(1)** = $1000 **(1)**

(ii) 3% × $15 000 **(1)** = $450 **(1)**

(iii) 5% × 60 000 shares of $0.50 **(1)** = $1500 **(1)**   **[6]**

(c)

	Income Statement Profit & Loss Account	Appropriation Account	Balance Sheet	
Debenture interest payable	✓	No entry	✓	**(2)**
Ordinary share dividend payable	No entry	✓	✓	**(2)**

                                                                                    [4]

(d) $
Ordinary share capital   30 000
Preference share capital   25 000
Debentures   15 000
                                70 000 **(1)**   **[1]**

(e) $\dfrac{11840 \times}{70\,000\,\textbf{(O/F)}} \dfrac{100\,\textbf{(1)}}{1} = 16.91\%$ **(1)O/F**   **[2]**

(f) If the return on capital employed increases it indicates that the company is employing its resources more efficiently. **(2)**   **[2]**

                                                                        [Total: 19]

5 (a) To compensate for the fact that she does more work than Samuel.
Or
To recognise the work that she does in the partnership.   **[2]**

(b)   Samuel and Martha Mavuso
                                   Balance Sheet at 31 October 2010
                                         $ $ $
Non-current (fixed) assets at cost   105 950
Less Provision for depreciation   9 350
                                                                     96 600 **(1)**

Current assets   23 562
Less Current liabilities   18 400
Working capital (net current assets)   5 162 **(1)**
                                                                    101 762

Financed by
                              Samuel   Martha   Total
                              Mavuso   Mavuso
Capital accounts   60 000   40 000 **(1)**   100 000
Current accounts
Opening balance   (1 091)   223 **(1)**
Interest on capital   2 400   1 600 **(1)**
Share of profit   4 122   2 748 **(1)**
                               5 431   4 571
Less Drawings   3 100   4 900 **(1)**
    Interest on drawings   93   147 **(1)**
                               3 193   5 047
                               2 238   (476) **(1)O/Fs**
                                                                  1 762
                                                                101 762 **(1)O/F**

Horizontal format acceptable

**Calculation of current account balances outside balance sheet acceptable if presented
in the form of ledger accounts**   **[10]**

(c) 23 562 : 18 400 **(1)** = 1.28 : 1 **(1)**   **[2]**

(d) Injection of capital
     Long term loan
     Sale of surplus non-current (fixed) assets
     Reduction in drawings

   Or other suitable points

   Any 2 points (1) each   **[2]**

(e) Does not include inventory (stock) in the calculation. **(1)**
     Either
     Inventory (stock) is not regarded as a liquid asset – a buyer has to be found and then the
     money collected. Some goods may prove to be unsaleable. **(1)**
     Or
     The quick ratio shows whether the business would have any surplus liquid funds if all the
     current liabilities were paid immediately from the liquid assets. **(1)**   **[2]**

                                                                          [Total: 18]

6 **(a)** Gross profit = 247 600 – 163 100 = 84 500 **(1)**

$$\frac{84\,500}{247\,000} \times \frac{100}{1} = 34.13\% \text{ (1)}$$ **[2]**

(b) Increase in selling prices
Obtaining cheaper supplies
Reduction the rate of trade discount allowed to customers
Increase in the rate of trade discount received from suppliers
Passing on increased costs to customers
Different product mix

Or other suitable reasons

Any 2 points (2) each   **[4]**

(c)
Waseem Shah
Suspense account

2010		$	2010		$	
July 31	Bank	1520 **(1)**	July 31	Difference on trial balance	1240	**(1)**
				Rent	90	**(1)**
				Balance c/d	190	**(1)**
		1520			1520	
2010						
Aug 1	Balance b/d	190 **(1)O/F**				**[5]**

Alternative presentation

Waseem Shah
Suspense account

2010		Debit $	Credit $	Balance $	
July 31	Difference on trial balance		1240 **(1)**	1240 Cr	
	Rent		90 **(1)**	1330 Cr	
	Bank	1520 **(1)**		190 Dr	
				(2)C/F	
				(1)O/F	**[5]**

(d) **Either**
Error   Number 2 **(1)**
Explanation This is an error of commission **(1)** and does not affect the balancing of the trial balance **(1)**

Or
Error   Number 3 **(1)**
Explanation This is an error of principle **(1)** and does not affect the balancing of the trial balance **(1)**   **[3]**

(e)

Waseem Shah
Statement of corrected profit for the year ended 31 July 2010

			$
Profit for the year (net profit) before corrections			33 000

	Increase in profit $	Decrease in profit $	
Error 1		90	
2	No effect **(2)**		
3		1 150 **(2)**	
4	No effect **(2)**		
	___	$\underline{1\ 240}$	$\underline{1\ 240}$

Corrected profit for the year			$\underline{31\ 760}$ **(1)O/F**	**[7]**

[Total: 21]