UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

MARK SCHEME for the May/June 2010 question paper
for the guidance of teachers

0452 ACCOUNTING

0452/23 Paper 23, maximum raw mark 120

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UNIVERSITY of CAMBRIDGE
International Examinations

1 **(a)** The bank statement is a copy of the account of the business as it appears in the books of the bank. This is from the viewpoint of the bank – the business depositing money is a creditor of the bank. **(2)**

The bank account in the cash book is prepared from the viewpoint of the business – the bank is a debtor of the business which has deposited the money. **(2)** [4]

(b) Cash Book (bank columns only)

2010		$		2010		$		
May 1	Dividend	262	**(1)**	May 1	Balance b/d	1668	**(1)**	
	Error correction **(1)**	100	**(1)**		Bank charges	38	**(1)**	
	Balance c/d	1344	**(1)**					
		1706				1706		
				May 1	Balance b/d	1344	**(1)OF**	[7]

(c) Bank Reconciliation Statement at 1 May 2010

	$		$		
Balance shown on bank statement			(1600)	**(1)**	
Add amounts not yet credited – cash sales **(1)**			650	**(1)**	
			(950)		
Less cheques not yet presented – Peter Smith **(1)**	344	**(1)**			
bank error **(1)**	50	**(1)**	394		
Balance shown in cash book			(1344)	**(1)OF**	[8]

(c) **Alternative presentation**

Bank Reconciliation Statement at 1 May 2010

	$		$		
Balance shown in cash book			(1344)	**(1)OF**	
Less cheques not yet presented – Peter Smith **(1)**	344	**(1)**			
bank error **(1)**	50	**(1)**	394		
			(950)		
Add amounts not yet credited – cash sales **(1)**			650	**(1)**	
Balance shown on bank statement			(1600)	**(1)**	[8]

(d) **Answer to be based on OF balance in (b)**
$1344 **(1) OF**
Liability **(1) OF** [2]

[Total: 21]

2 **(a)** The liability of the members (shareholders) of a company for the debts of the company is limited to the amount they agree to pay the company for their shares. [2]

(b) Preference shares receive a fixed rate of dividend: debentures receive a fixed rate of interest.
Preference shareholders are members of the company: debenture holders are not members of the company.
Preference shares are part of the capital of the company: debentures are long term loans.
Preference shareholders are repaid after the debenture holders in the event of the company being wound up.

Any 2 points (2) each [4]

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

(ii) Called-up capital is the total amount of capital a company has requested from its shareholders. **(2)**

(iii) Paid-up capital is that part of the called up capital for which a company has actually received the money from its shareholders. **(2)** [6]

(d) DEC Ltd
Profit and Loss Appropriation Account for the year ended 31 March 2010

		$		$	
Profit for the year (net profit)				22 000	**(1)**
Less Transfer to general reserve		3 000	**(1)**		
Dividends paid –	Preference	1 400	**(2)**		
Dividends proposed –	Preference	2 800	**(2)**		
	Ordinary	<u>12 000</u>	**(2)**	<u>19 200</u>	
Retained profit for the year				2 800	**(1)**
Retained profit brought forward (profit & loss balance)				<u>4 300</u>	**(1)**
Retained profit carried forward				<u>7 100</u>	**(1)OF**

[11]

[Total: 23]

3 **(a)** A narrative explains the reasons for the entries which are to be made in the ledger. [2]

(b) Journal

	Debit $	Credit $
Zaffar Khan Zubin Khan Correction of error Zaffar Khan incorrectly credited **(1)**	170 **(1)**	 170 **(1)**
Equipment Office expenses Correction of error equipment debited to office expenses **(1)**	1000 **(1)**	 1000 **(1)**
Stationery Purchases Correction of error stationery debited to purchases account **(1)**	19 **(1)**	 19 **(1)**
Sales returns Mariam Sitar Correction of error no entry made for sales returns **(1)**	25 **(1)**	 25 **(1)**

[12]

(c) Error 2 Effect – Increase **(1)**
Reason – Expenses are being reduced so the profit increases. **(2)**

Error 3 Effect – No effect **(1)**
Reason – The cost of sales is being reduced, but the expenses are being increased. The profit does not alter. **(2)**

Error 4 Effect – Decrease **(1)**
Reason – The sales are being decreased so the profit will also decrease. **(2)** [9]

[Total: 23]

4 **(a)** Balance 1 April 2009

Explanation – This is the amount of rates (property tax) prepaid during the previous financial year which related to the current financial year. **(2)**

Double entry – credit rates (property tax) account for year ended 31 March 2009. **(1)**

Bank 1 July 2010

Explanation – This is the total amount of rates (property tax) paid by cheque. **(2)**

Double entry – credit bank column in cash book. **(1)**

Income statement (profit and loss) 31 March 2010

Explanation – This is the rates (property tax) relating to the current financial year transferred to the income statement (profit and loss). **(2)**

Double entry – debit income statement (profit and loss). **(1)**

[9]

(b) The balance represents the amount of rates (property tax) still outstanding for the financial year ended 31 March 2010**.** [2]

(c) **(i)** The accruals (matching) principle requires the revenue of the accounting period to be matched against the costs of the same period. **(2)**

(ii) The total rates relating to the financial year ended 31 March 2010 were transferred to the income statement. **(2)** [4]

(d) Business entity [1]

(e) Realisation [1]

[Total: 17]

5 (a) Accountant – service business **(1)**
Baker – trading business **(1)**
Travel agent – service business **(1)** [3]

(b) Calculation of fees

	$	
Cheques received during the year	21 250	**(1)**
Add amounts owing 30 April 2010	1 820	**(1)**
	23 070	
Less amounts owing 1 May 2009	1 770	**(1)**
Fees for the year	21 300	**(1)**

Calculation in ledger account format acceptable [4]

(c) Martha Musa
Income Statement (Profit and Loss Account) for the year ended 30 April 2010

	$		$	
Fees			21 300	**(1)OF**
Rent received (2750 – 150)			2 600	**(2)**
			23 900	
Rates (property tax) and insurance	1 660	**(1)**		
General expenses (7710 + 230)	7 940	**(2)**		
Loss on disposal (6000 – 4000 – 1800)	200	**(2)**		
Depreciation – office equipment (25% × 8000 × 6 months)	1 000	**(2)**	10 800	
Profit for the year (net profit)			13 100	**(1)OF**

Horizontal format acceptable [11]

[Total: 18]

6 (a) (i) $\dfrac{(54\,000 - 38\,000)\ \mathbf{(1)}}{54\,000} \times \dfrac{100}{1} = 29.63\%\ \mathbf{(2)}$

(ii) $\dfrac{(16\,000 - 9\,000)\ \mathbf{(1)}}{54\,000} \times \dfrac{100}{1} = 12.96\%\ \mathbf{(2)}$ [6]

(b) **All comments and reasons to be based on OFs from (a)**

Gross profit percentage has fallen from 35.50% to 29.63%.
Is earning $29.63 per $100 sales compared to $35.50 previously.
The business is less profitable in respect of gross profit.

Or other suitable comment
Any 1 comment **(2)**

Reduction in selling prices.
Increase in cost of supplies.
Change in proportions of different goods.
Not passing on increased costs to customers.

Or other acceptable reason
Any 1 reason **(2)**

Net profit percentage has increased from 10.45% to 12.96%.
Is earning $12.96 per $100 sales compared to $10.45 previously.
The business is more profitable.

Or other suitable comment
Any 1 comment **(2)**

Increased control of expenses.
Change in types of expenses.

Or other acceptable reason
Any 1 reason **(2)** [8]

(c) Cannot meet liabilities when they are due.
May experience difficulties in obtaining further supplies on credit.
Cannot take advantage of cash discounts.
Cannot take advantage of business opportunities as they arise.

Any 2 points (2) each [4]

[Total: 18]