UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

International General Certificate of Secondary Education

MARK SCHEME for the May/June 2007 question paper

0452 ACCOUNTING

0452/03 Paper 3, maximum raw mark 100

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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CIE is publishing the mark schemes for the May/June 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 **(a)** Work can be shared between several people

Easier for reference as same type of accounts are kept together

Easier to introduce checking procedures

Or other suitable point

Any 1 point [1] **[1]**

(b)

Purchases Ledger

Oman El Gamal account

		$				$	
2007				2007			
Mar 19	Bank	429	**[1]**	Mar 8	Purchases	440	**[1]**
	Discount recd	11	**[1]**				
		440				440	

Mohammed El Wakil account

		$				$	
2007				2007			
Mar 24	Purchase returns	128	**[1]**	Mar 21	Purchases	304	**[1]**
26	Cash	110	**[1]**				
31	Balance c/d	66	**[1]**			304	
		304		2007			
				Apr 1	Balance b/d	66	**[1] O/F**

+ [1] Dates

[9]

(b) **Alternative presentation**

Omar El Gamal account

		Debit $		Credit $		Balance $	
2007							
Mar 8	Purchases			440	**[1]**	440	Cr
19	Bank	429	**[1]**			11	Cr
	Discount recd	11	**[1]**			0	

Mohammed El Wakil account

		Debit $		Credit $		Balance $		
2007								
Mar 21	Purchases			304	**[1]**	304	Cr	
24	Purchase returns	128	**[1]**			176	Cr	
26	Cash	110	**[1]**			66	Cr	**[2]C/F [1]O/F**

+ [1] Dates

[9]

(c)

Nominal Ledger
Purchases account

2007		$		
Mar 31	Total from purchases journal	744 **[1]**		
	Cash	990 **[1]**		

Purchases returns account

		2007		$
		Mar 31	Total from returns journal	128 **[1]**

[3]

(c) Alternative presentation

Purchases account

		Debit	Credit	Balance
2007		$	$	$
Mar 31	Total from purchases journal	744 **[1]**		744 Dr
	Cash	990 **[1]**		1 734 Dr

Purchases returns account

		Debit	Credit	Balance
2007		$	$	$
Mar 31	Total from returns journal		128 **[1]**	128 Cr

[3]

(d) Assist in the location of errors
Provide instant totals of debtors/creditors
Proves the arithmetical accuracy of sales/purchases ledgers
Enable the Balance Sheet to be prepared quickly
Provide a summary of the transactions relating to debtors/creditors
Provide an internal check on sales/purchases ledgers – may reduce fraud

Or other relevant points

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

(e)

	Item	Entry in sales ledger control account
(ii)	Cheques received from debtors	credit **[1]**
(iii)	Trade discount allowed to debtors	no entry **[1]**
(iv)	Contra item transferred to purchases ledger	credit **[1]**

[3]

[Total: 18]

2 **(a)** **(i)** So that the profits for the year are not over-stated **[1]**

(ii) So that the debtors in the Balance Sheet are shown at a realistic amount **[1]** **[2]**

(b) Matching principle **[1]**

(c) **(i)**

J.Ukata account

		$				$	
2006		$		2006		$	
Feb 4	Sales	900	**[1]**	Mar 1	Bank	873	**[1]**
Mar 1	Sales	80			Discount	27	**[1]**
				2007			
				Jan 31	Bad debts	80	**[1]**
		980				980	

(ii)

Bad debts account

2007		$		2007		$	
Jan 31	J.Ukata	80	**[1]**	Jan 31	Profit & Loss	80	**[1] O/F**
		80				80	

(iii)

Bad debts recovered account

2007		$		2006		$	
Jan 31	Profit & Loss*	35	**[1]**	Dec 31	Cash	35	**[1]**
		35				35	

(iv)

Provision for doubtful debts account

2007		$		2006		$	
Jan 31	Balance c/d	200	**[1]**	Feb 1	Balance b/d	150	**[1]**
				2007			
				Jan 31	Profit & Loss	50	**[1]**
		200				200	
				2007			
				Feb 1	Balance b/d	200	**[1]O/F**

[12]

* Alternatively, transfer to bad debts account. The transfer from bad debts to profit & loss would then be $45.

(c) Alternative presentation

(i)

J.Ukata account

		Debit	Credit	Balance
2006		$	$	$
Feb 4	Sales	900 } **[1]**		900 Dr
Mar 1	Sales	80 }		980 Dr
	Bank		873 **[1]**	107 Dr
	Discount		27 **[1]**	80 Dr
2007				
Jan 31	Bad debts		80 **[1]**	0

(ii)

Bad debts account

		Debit	Credit	Balance
2007		$	$	$
Jan 31	J.Ukata	80 **[1]**		80 Dr
	Profit & Loss		80 **[1]O/F**	0

(iii)

Bad debts recovered account

		Debit	Credit	Balance
2006		$	$	$
Dec 31	Cash		35 **[1]**	35 Cr
2007				
Jan 31	Profit & Loss*	35 **[1]**		0

(iv)

Provision for doubtful debts account

		Debit	Credit	Balance
2006		$	$	$
Feb 1	Balance		150 **[1]**	150 Cr
2007				
Jan 31	Profit & Loss		50 **[1]**	200 Cr **[2]C/F** **[1]O/F**

[12]

* Alternatively, transfer to bad debts account. The transfer from bad debts to profit & loss would then be $45.

(d)

	Item	Overstated	Understated
		$	$
(ii)	Net profit for the year ended 31 January 2007	50 **[1]**	No effect **[1]**
(iii)	Total of current assets in Balance Sheet at 31 January 2007	200 **O/F [1]**	No effect **[1]**

[4]

[Total: 19]

3 (a)

Jamil and Sara Suliman
Trading Account for the year ended 30 April 2007

		$		$		$	
Sales						30 000	**[1]**
Less cost of sales							
Opening stock				5 000	**[1]**		
Purchases				26 000	**[1]**		
				31 000			
Less Closing stock –	Stock remaining	4 500	**[1]**				
	Stock lost	2 500	**[2] C/F**				
			[1] O/F				
				7 000			
						24 000	
Gross profit						6 000	**(2)**

Horizontal format acceptable **[8]**

(b) Calculation of net profit –

	$		
Gross profit	6000		**O/F**
Less Expenses	4600		
Net profit	1400	**[1]**	**O/F**

[1]

(c) Calculation of partners' share of the residual net profit/loss –

		$		$		
Net profit				1400	**[1]**	**O/F**
Interest on capital –	Jamil	2000				
	Sara	1000		3000	**[1]**	
				(1600)		
Share of loss –	Jamil	800	**[1] O/F**			
	Sara	800		(1600)		

[3]

(d)

Current accounts

		Jamil	Sara					Jamil	Sara	
2006		$	$			2006		$	$	
May 1	Balance b/d	200				May 1	Balance b/d		600	**[1]**
2007						2007				
Apr 30	Drawings	3100	2800	**[1]**		Apr 30	Interest on capital	2000	1000	**[1]**
	Share of Loss	800	800	**[1]**	**O/F**		Balances c/d	2100	2000	
		4100	3600					4100	3600	
2007										
May 1	Balances b/d	2100	2000	**[1]**	**O/F**					

In all cases the marks are for suitable wording and two figures

Alternatively allow two separate "T" accounts **[5]**

(d) Alternative presentation

Jamil Current account

		Debit	Credit	Balance	
2006		$	$	$	
May 1	Balance	200		200	Dr
2007					
Apr 30	Drawings	3100		3300	Dr
	Share of loss	800		4100	Dr
	Interest on Capital		2000	2100	Dr

Sara Current account

		Debit	Credit	Balance	
2006		$	$	$	
May 1	Balance		600	600	Cr
2007					
Apr 30	Drawings	2800		2200	Dr
	Share of loss	800		3000	Dr
	Interest on Capital		1 000	2000	Dr

Opening balances	**[1] for suitable wording and two figures**
Drawings	**[1] for suitable wording and two figures**
Share of loss	**[1] O/Fs for suitable wording and two figures**
Interest on capital	**[1] for suitable wording and two figures**
Closing balances	**[1] O/Fs for two figures**

[5]

(e) (i) To enter goodwill on the books

account(s) to be debited	$	account(s) to be credited	$
Goodwill	20 000 **[1]**	Jamil Capital	10 000 **[1]**
		Sara Capital	10 000 **[1]**

(ii) To write off the goodwill

account(s) to be debited	$	account(s) to be credited	$
Jamil Capital	8000 **[1]**	Goodwill	20 000 **[1]**
Sara Capital	8000 **[1]**		
Fatima Capital	4000 **[1]**		

[7]

[Total: 24]

4 (a)

Peter Mpho
Balance Sheet at 31 January 2007

	$	$		$	
Fixed Assets					
Premises at cost				90 000	
Equipment at valuation				47 000	[1]
				137 000	
Current Assets					
Stock		17 500			
Debtors (19 200 + 150)		19 350	[1]		
Petty cash		100			
		36 950	[1]O/F		
Current Liabilities					
Creditors	29 000				
Bank overdraft (300 – 1050)	750 [1]				
Accrual	200 [1]				
		29 950	[1]O/F		
Working Capital				7 000	[1]O/F
				144 000	
Capital					
Opening Balance				145 000	
*Net Profit (13 500 – 200 + 600 – 3000 – 1050 + 150) [1] [1] [1] [1] [1]				10 000	[1]O/F
				155 000	
Drawings (10 400 + 600)				11 000	[1]
				144 000	

Horizontal format acceptable **[14]**

*Calculation of net profit

Original figure		13 500
Add goods for own use	600	
carriage outwards	150	750
		14 250
Less wages owing	200	
revaluation of equipment	3000	
bank charges	1050	4 250
		10 000

(b) **(ii)** Reliability **[1]**
(iii) Comparability **[1]**
(iv) Understandability **[1]**

[3]

(c) Financial information is only relevant if it can be used –

To confirm or correct prior expectations about past events
To assist in forming, revising or confirming expectations about the future
As the basis for financial decisions

Explanation of any 1 point [2] **[2]**

[Total: 19]

5 **(a)** **(i)** Current ratio 70 000 : 40 000 = 1.75 : 1 **[1]**

(ii) Quick ratio (70 000 – 34 000) : 40 000 = 0.90 : 1 **[1]**

(iii) Collection period for debtors $\frac{29\,000}{275\,000} \times \frac{365}{1}$ **[1]** = 39 days **[1]**

(iv) Payment period for creditors $\frac{40\,000}{465\,000} \times \frac{365}{1}$ **[1]** = 32 days **[1]** **[6]**

(b) Does not include stock in the calculation **[1]**
Either
Stock is not regarded as a liquid asset – a buyer has to be found and then the money collected. Some stock 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]**

(c) Satisfied if **(a) (ii)** is higher than the ratio for 2005
Not satisfied if **(a) (ii)** is lower than the ratio for 2005 **[1]**

(d) Increase in current liabilities greater than the increase in current assets
Increase in creditors and no significant change in current assets
Decrease in debtors and no significant change in current liabilities
Decrease in bank and no significant change in current liabilities
Decrease in stock and no significant change in current liabilities

Or suitable response based on own figure calculation in (a) (i)

Any 1 acceptable point [2] **[2]**

(e) **(i)** Not satisfied if **(a) (iii)** is more than the ratio for 2005
Satisfied if (a) (iii) is less than the ratio for 2005 **[1]**

(ii) Debtors are taking 9 days longer to pay than the previous year
Or suitable explanation based on O/F answer to (a) (iii) **[2]**

(f) Debtors are taking longer to pay so this may have a knock-on effect and mean that the creditors may have to wait longer for their accounts to be paid.
Or suitable explanation based on O/F answer to (a) (iii) and (a) (iv) **[2]**

(g) Rate of stock turnover **[1]**

(h) The accounts may be for 1 year only and not show trends

The accounts may not be for a typical year

The financial year may end at a different point in the trading cycle

The businesses may operate different accounting policies e.g. depreciation

The accounts do not show non-monetary items but these are important in the success of a business

It is not always possible to obtain all the information about a business in order to make a true comparison

Or other suitable points

Any 3 correct points [1] each **[3]**

[Total: 20]