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

0452/21 Paper 21, 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.

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1 **(a)** To remove small cash payments from the main cash book.
To reduce the number of entries in the main cash book and the expenses in the ledger.
To allow the chief cashier to delegate some of the work.

Or other suitable reason.
Any 2 reasons (1) each. [2]

(b) The petty cashier starts each period with the same amount of money **(1)**.
At the end of the period the chief cashier will make up the cash remaining so that it is equal to the imprest amount **(1)**. [2]

(c) The chief cashier is aware of exactly how much is spent in each period.
The cash remaining and the total of the vouchers received should always be equal to the imprest amount.

Or other suitable advantage.
Any 1 advantage (1). [1]

(d) The petty cashier will receive $88. [1]

(e) **(i)** Debit travelling expenses account with $11. [2]

(ii) Debit N Jones account with $21 **(2)**.
Debit W Smith account with $18 **(2)**. [4]

(f) To spread the cost of fixed assets over their useful lives.
To apply the accruals principle – recognising the time difference between payment for the fixed asset and its loss in value.
To provide a more realistic view of the fixed assets.
To record the loss in value of fixed assets – the part of the cost of the fixed asset consumed during the period of use.
The annual depreciation charge represents the cost of using the fixed asset to earn revenue.

Or other acceptable reason.
Any 2 reasons (1). [2]

(g) Where a choice of method is available, the one with the most realistic outcome should be selected and used consistently from one accounting period to the next. [2]

(h) (i) Straight line (equal instalment) method

		$	
Cost		8000	
Less scrap value		500	
		7500	
Annual depreciation	7500 **(1)** / 3 years **(1)** =	$2500	**(1)**

[3]

(ii) Reducing (diminishing) balance method

	$	
Cost	8000	
Depreciation for year ending 31 January 2011 (60% × 8000)	4800	**(1)**
	3200	
Depreciation for year ending 31 January 2012 (60% × 3200)	1920	**(1)**
	1280	
Depreciation for year ending 31 January 2013 (60% × 1280)	768	**(1)**
	512	

[3]

[Total: 22]

2 **(a)** To calculate how much it has cost the business to manufacture the goods produced in the financial year. [2]

(b) Production did not meet demand.
It was cheaper to buy the goods rather than make them.
Those particular items could not be made by the business.

Or other suitable reason.
Any 2 reasons (1) each. [2]

(c) Ahmed Zaki
Manufacturing Account for the year ended 30 April 2010

	$		$	
Opening inventory (stock) of raw materials	33 400	**(1)**		
Purchases of raw materials	408 160	**(1)**		
			441 560	
Less Closing inventory (stock) of raw materials			35 230	**(1)**
			406 330	
Direct factory wages			325 270	**(1)**
Prime cost			731 600	**(1)**
Factory overheads				
Indirect factory wages (130 200 + 1520)	131 720	**(1)**		
Factory general expenses (198 280 – 400)	197 880	**(1)**		
Depreciation factory machinery (162 000 + 19 500 – 150 000)	31 500	**(2)**	361 100	
			1 092 700	**(1)O/F**
Add Opening work in progress			14 200	**(1)**
			1 106 900	
Less Closing work in progress			13 900	**(1)**
Cost of production			1 093 000	**(1)O/F**

Horizontal format acceptable [13]

[Total: 17]

3 **(a)** Provision for doubtful debts
2½% × (15 530 – 90) **(1)** = $386 **(1)** [2]

(b) Journal

		Debit $	Credit $
(i)	Bad debts K Singh Bad debt written off **(1)**	90 **(1)**	 90 **(1)**
(ii)	Income statement (profit and loss) Bad debts Transfer of total bad debts written off to income statement (profit and loss) **(1)**	300 **(1)**	 300 **(1)**
(iii)	Income statement (profit and loss) Provision for doubtful debts Creation of provision for doubtful debts **(1)**	386 **(1)O/F**	 386 **(1)O/F**

[9]

(c) Shilpa Gandhi
Extract from Balance Sheet at 31 January 2010

	$		$	
Current Assets				
Trade receivables (trade debtors)	15 440			
Less Provision for doubtful debts	386	**(1)O/F**	15 054	**(1)O/F**

[2]

(d) Calculation of total value of inventory (stock)

	$	
Type A 360 units × $23 per unit	8 280	**(2)**
Type B (520 – 40) units × $12 per unit	5 760	**(2)**
	14 040	**(1)O/F**

[5]

(e) **Either** Prudence
Or Consistency [1]

[Total: 19]

4 **(a)** **(i)** Mark-up is the gross profit measured as a percentage of the cost price. [1]

(ii) Margin is the gross profit measured as a percentage of the selling price. [1]

(b) **(i)** Cost of sales = (25 200 + 347 200) – 28 000 = 344 400 **(1)**
Gross profit = 430 500 – 344 400 = 86 100 **(1)**

Percentage profit mark-up = $\frac{86\,100}{344\,400}$ **O/F** × $\frac{100}{1}$ **(1)O/F** = 25% **(1)O/F** [4]

(ii) Sales = 430 500
Gross profit = 86 100

Percentage profit margin = $\frac{86\,100 \textbf{ O/F}}{430\,500 \textbf{ O/F}}$ × $\frac{100}{1}$ **(1)O/Fs** = 20% **(1)O/F** [2]

(c) Increase selling prices.
Obtain cheaper supplies.
Change mix of sales.

Or other acceptable point.
Any 2 points (1) each. [2]

(d) Current assets = 28 000 + 36 300 + 100 = 64 400 **}**
Current liabilities = 29 600 + 13 200 = 42 800 **} (1)**

Current ratio = 64 400 : 42 800 **(1)** = 1.50 : 1 **(1)** [3]

(e) Liquid assets = 36 300 + 100 = 36 400 **}**
Current liabilities = 29 600 + 13 200 = 42 800 **} (1)**

Quick ratio = 36 400 : 42 800 **(1)** = 0.85 : 1 **(1)** [3]

(f) **Answer to be based on O/Fs in (e)**.
Not satisfied **(1)**

Immediate liabilities cannot now be met out of liquid assets without selling stock **(2)**.
Or other suitable comment. [3]

(g) **(ii)** No effect **(1)**

(iii) Decrease **(1)** [2]

[Total: 21]

5 **(a)** **(i)** Preference shares:
Receive a fixed rate of dividend.
The dividend is paid before the ordinary share dividend.
Preference shares do not usually carry voting rights.
Capital is returned before the ordinary share capital in a winding up.

Any 2 points (2) each. [4]

(ii) Ordinary shares:
They are also known as equity shares.
The dividend is paid after the preference share dividend.
The dividend may vary according to profits.
Ordinary shares usually carry voting rights.
Ordinary shares are the last to be repaid in a winding up.

Any 2 points (2) each. [4]

(b) Ellis Ltd
Extract from Balance Sheet at 31 March 2010

Capital and Reserves	$	
100 000 5% Preference shares of $1 each	100 000	**(2)**
600 000 Ordinary shares of $.50 each	300 000	**(2)**
Profit and Loss account (retained profits) (10 000 **(1)** + 5000 **(1)**)	15 000	

[6]

(c) Ellis Ltd
Extract from Balance Sheet at 31 March 2010

Current liabilities		$	
Other payables –	Debenture interest (4% × 100 000)	4 000	**(2)**
	Preference share dividend (5% × 100 000)	5 000	**(2)**
	Ordinary share dividend ($0.05 × 600 000 shares)	30 000	**(2)**

[6]

[Total: 20]

6 **(a)** To avoid misunderstandings/disagreements later. [2]

(b) **(i)** To discourage the partners from making excessive drawings. [2]

(ii) To compensate for an unequal work-load.
OR In recognition of work done in the business. [2]

(c)

Ben and Jane Mwanga
Profit and Loss Appropriation Account for the year ended 31 March 2010

		$		$	
Profit for the year (net profit)				12 000	**(1)**
Add Interest on drawings –	Ben	320	**(1)**		
	Jane	600	**(1)**	920	
				12 920	
Less Interest on capital –	Ben	3 000	**(1)**		
	Jane	1 800	**(1)**		
		4 800			
Partners' salary –	Jane	10 000	**(1)**	14 800	
				(1 880)	
Share of loss –	Ben	(1 175)	**(1)O/F**		
	Jane	(705)	**(1)O/F**	(1 880)	

[8]

(d)

Ben and Jane Mwanga
Statement of corrected profit for the year ended 31 March 2010

	Increase in profit	Decrease in profit		$	
	$	$			
Profit for the year (net profit) before corrections				12 000	
Error 1	1000				
2		30	**(2)**		
3	No effect **(2)**				
4		50	**(2)**		
	1000	80			
				920	
Corrected profit for the year				12 920	**(1)O/F**

[7]

[Total: 21]