

CAMBRIDGE INTERNATIONAL EXAMINATIONS
International General Certificate of Secondary Education

MARK SCHEME for the May/June 2014 series

0452 ACCOUNTING

0452/23

Paper 2, maximum raw mark 120

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1 (a)

Nasir Manufacturing Limited
Manufacturing Account for the year ended 31 January 2014

	\$	\$
Cost of materials used		
Opening inventory of raw materials		23 500
Purchases of raw materials		<u>124 600</u> (1)
		148 100
Closing inventory of raw materials		<u>26 100</u>
		122 000 (1)
Direct wages (136 000 + 2 200)		138 200 (1)
Direct expenses		<u>16 300</u> (1)
Prime cost		276 500 (1)
Factory overheads		
Wages of factory supervisors	31 400 }	
General factory expenses	19 208 } (1)	
Rates & insurance ($\frac{3}{4} \times (6\,360 - 120)$)	4 680 (2)	
Depreciation Plant & machinery		
(20% \times (94 000 – 33 840))	12 032 (1)	
Loose tools		
(2 650 + 310 – 2 740)	<u>220</u> (1)	<u>67 540</u>
		344 040 (1)OF
Opening work in progress		<u>11 020</u> (1)
		355 060
Closing work in progress		<u>12 060</u> (1)
Cost of production		<u>343 000</u> (1)OF

Horizontal format acceptable

[14]

(b)

Nasir Manufacturing Limited
Income Statement for the year ended 31 January 2014

	\$	\$	\$
Revenue			539 000
Cost of sales			
Opening inventory finished goods		18 100 (1)	
Cost of production		343 000 (1)OF	
Purchases finished goods	16 900 (1)		
Less Returns	<u>200</u> (1)	<u>16 700</u>	
		377 800	
Less Closing inventory finished goods		<u>19 300</u> (1)	<u>358 500</u>
Gross profit			<u>180 500</u> (1)OF

Horizontal format acceptable

[6]

[Total: 20]

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2 (a)

Leroy Smith Stationery account			
		\$	\$
2013			2013
April 1	Balance b/d	144 (1)	Aug 1
June 30	Bank	368 (1)	Drawings
			26 (1)
			2014
			Mar 31
			Income statement
			394 (1)
			Balance c/d
			<u>92 (1)</u>
		<u>512</u>	<u>512</u>
2014			
April 1	Balance b/d	92 (1)	

Three column running balance format acceptable [6]

(b) The business entity principle has been applied when the stationery taken for personal use was transferred from the stationery account to the drawings account. [2]

(c)

Leroy Smith Rent and rates account			
		\$	\$
2013			2013
April 1	Balance (rates) b/d	380 (1)	April 1
2014			Balance (rent) b/d
Mar 31	Bank (rates)	2470 } (1)	260 (1)
	Bank (rent)	3380 }	2014
			Mar 31
			Income statement
			5400 (1)
			Balance (rates) c/d
			<u>570 (1)</u>
		<u>6230</u>	<u>6230</u>
2014			
April 1	Balance b/d	570 (1)	

Three column running balance format acceptable [6]

(d) The accruals principle has been applied when only the expense for the year was transferred to the income statement. [2]

(e) Capital receipts

Amounts received which do not form part of the day-to-day trading activities. (1)

Capital expenditure

Money spend on acquiring improving and installing non-current assets. (1)

Revenue receipts

Amounts received in the day-to-day trading activities from revenue and other items of income. (1)

Revenue expenditure

Money spent on running a business on a day-to-day basis. (1)

[4]

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(f)

non-current assets at 31 March 2014		profit for the year ended 31 March 2014	
Overstated	Understated	Overstated	Understated
✓ (1)		✓ (1)	

[2]

[Total: 22]

- 3 (a) (i) The straight line method of depreciation uses the same amount of depreciation each year. [1]
- (ii) This method is used where each year is expected to benefit equally from the use of the asset. [1]
- (b) (i) The reducing balance method of depreciation uses the same percentage rate of depreciation each year, but it is calculated on the book value at the end of each year. [1]
- (ii) This method is used where the greater benefits from the use of the asset will be gained in the early years of its life. [1]
- (c) 1 Computer equipment – reducing balance method (1)
2 Buildings – straight line method (1)
3 Motor vehicle – reducing balance method (1) [3]
- (d) (i) The asset is valued at the end of each year and the difference between the opening and closing value is the depreciation for the year. [1]
- (ii) This method is used where it is impractical or difficult to maintain detailed records of the asset. [1]
- (iii) Loose tools, packing cases, small items of equipment
Or other suitable example
Any 1 example (1) [1]

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(e)

Tony Yeo Equipment account			
		\$	\$
2013			
May 1	Balance b/d	8 600	
Nov 1	New2You	3 400 (1)	
		12 000	
2014			
May 1	Balance b/d	10 000 (1)OF	[3]
Provision for depreciation of equipment account			
		\$	\$
2013			
Oct 31	Disposals	800 (2)	
2014			
Apl 30	Balance c/d	4 120	
		4 920	
2013			
May 1	Balance b/d		3 260
2014			
Apl 30	Income statement		
	20% × 6 600		1 320 (1)
	20% × 3 400 × ½		340 (1)
			4 920
2014			
May 1	Balance b/d	4 120 (1)OF	[5]
Disposal of equipment account			
		\$	\$
2013			
Oct 31	Equipment	2 000 (1)OF	
2013			
Oct 31	Prov for dep		800 (1)OF
	Cash		750 (1)
2014			
Apl 30	Income statement		450 (1)OF
		2 000	2 000

Three column running balance format acceptable

[Total: 22]

- 4 (a) $\$30\,000 \times 5\% = \$1\,500$ (1)
- $\$50\,000 \times 6\% = \$3\,000$ (1)
- $\$70\,000 \times 8\% = \$5\,600$ (1) [3]

- (b) To indicate that part of the profit is for long term use within the company and is not available for distribution. [1]

(c)		\$	\$	
	Profit before interest and dividends		18 600	
	Less Debenture interest	1 500 (1)		
	Preference share dividend	3 000 (1)		
	Ordinary share dividend	5 600 (1)		
	Transfer to general reserve	4 000 (1)	14 100	
	Profit retained in the year		4 500 (1)OF	[5]

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- (d) LWS Ltd
Extract from Statement of Financial Position at 30 April 2014
\$
- | | | | |
|--|--------|------|-----|
| Capital and reserves | | | |
| 140 000 Ordinary shares of \$0.50 each | 70 000 | } | |
| 50 000 6% Preference shares of \$1 each | 50 000 | }(1) | |
| General reserve | 4 000 | (1) | |
| Retained profits (7 500 (1) + 4 500 (1)OF) | 12 000 | | [4] |
- (e) Non-current liabilities [1]
- (f) (i) Current liabilities [1]
- (ii) \$750 [1]
- [Total: 16]
- 5 (a) To ensure that the totals of the trial balance agree (1)
To allow draft financial statements to be prepared (1) [2]

(b)

Uzma Khan
Journal

		Debit \$	Credit \$	
1	Suspense Rent Correction of error of transposition	270	270	(1) (1) (1)
2	Drawings Wages Correction of error, drawings debited to wages	400	400	(1) (1) (1)
3	Discount allowed Suspense Correction of error, discount not transferred to ledger	43	43	(1) (1) (1)
4	Mona Suspense Amina Correction of error, receipt from Amina \$2000 entered as \$200 in Mona's account	200 1800	2000	(1) (1) (1) (1)

4	Alternative presentation			
	Mona Suspense	200	200	(1) }
	Suspense Amina	2000	2000	} (1) (1)
	Correction of error, receipt from Amina \$2000 entered as \$200 in Mona's account			(1)

[13]

(c)

Error	Effect on profit for the year		
	Overstated \$	Understated \$	No effect
2		400 (2)	
3	43 (2)		
4			No effect (2)

[6]

[Total: 21]

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6 (a)

Ratio	Year ended 31 March 2014
percentage of gross profit to revenue (sales)	31.11 % (2)
percentage of profit for the year to revenue (sales)	7.78 % (2)OF
current ratio	1.09 : 1 (2)
quick ratio	0.69 : 1 (2)

[8]

Calculations

Percentage of gross profit to revenue

$$\frac{450000 - 310000 (1)}{450000} \times \frac{100}{1} = 31.11\% (1)$$

Percentage of profit for the year to revenue

$$\frac{140000 \text{ O/F} - 105000 (1) \text{ OF}}{450000} \times \frac{100}{1} = 7.78\% (1) \text{ OF}$$

Current ratio

$$(21500 + 100 + 37400) : (36800 + 12200 + 5000) (1) = 1.09 : 1 (1)$$

Quick ratio

$$(100 + 37400) : (36800 + 12200 + 5000) (1) = 0.69 : 1 (1)$$

(b) Increase in selling price

Reduction in trade discount allowed to customers

Selling at a higher mark-up

Decrease in cost price

Increase in trade discount allowed by suppliers

Taking advantage of bulk buying

Or other suitable reason based on answer to (a)

Any 2 reasons (1) each

[2]

(c) Year ended 31 March 2013 (1)

In 2013 the expenses were 17.85% of revenue: in 2014 the expenses were 23.33% of revenue. (2)

Or suitable answer based on answers to (a)

[3]

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(d)

	Increase	Decrease	No effect
Cheque paid to credit supplier			✓ (1)
Goods taken for own use		✓ (1)	
Purchase of non-current asset on credit		✓ (1)	

[3]

(e) Unsatisfied (1)

The ratio of liquid assets to current liabilities has fallen from 0.90:1 to 0.69:1. (1)

She cannot pay immediate liabilities from liquid assets. (1)

Or suitable answer based on answer to (a)

[3]

[Total: 19]