

IGCSE

London Examinations IGCSE

Accounting (4305)

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Specimen Papers and Mark Schemes

London Examinations IGCSE

Accounting (4305)

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Candidate No.					

Paper Reference					
4	3	0	5	/	01

Surname	Initial(s)
Signature	

Paper Reference(s)
4305/01

London Examinations

IGCSE

Accounting

Paper 1

Specimen Paper
Time: 2 hours 30 minutes

Examiner's use only

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Team Leader's use only

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Question Number	Leave Blank
1	
2	
3	
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5	
6	
Total	

Materials required for examination
None

Items included with question papers
None

Instructions to Candidates

Answer **all** the questions in Section A and Section B in the spaces provided in this question paper.
In the boxes above, write your centre number and candidate number, your surname, initial(s) and signature.
The paper reference is shown at the top of this page. Check that you have the correct question paper.

Information for Candidates

There are 20 pages in this question paper.
The total mark for this paper is **100**. The marks for the various parts of questions are shown in round brackets, e.g. (2).
There are blank pages at the end of this question paper which you may use if you cannot fit your answer in the space provided.
You may use a calculator.

Advice to Candidates

You are reminded of the importance of clear English and careful presentation in your answers.

Specimen

Section A
Answer ALL Questions

Question 1

For each question, choose the best answer **A**, **B**, **C** or **D** and write it in the box.

(a) Which of the following would appear in a trading account?

- A** Discounts allowed
- B** Carriage inwards
- C** Carriage outwards
- D** Discounts received

(1)

(b) In a trial balance, which one of the following items would be correctly shown as a debit balance?

- A** Bank overdraft
- B** Discount received
- C** Returns inwards
- D** Returns outwards

(1)

(c) If S Singh were to post £100 to the debit of A Smith's account instead of to the debit of A Smithson's account, this would be known as an error of

- A** principle
- B** commission
- C** omission
- D** compensation

(1)

(d) The purpose of providing for depreciation in the accounts of a business is to

- A write off, over a period of time, the cost of the capital assets
- B provide cash to pay for new capital assets
- C make provision against future losses
- D provide for inflation

(1)

(e) In which of the following will *cash discount allowed* be originally recorded?

- A Ledger
- B Journal
- C Purchases book
- D Cash book

(1)

(f) A repair bill for a private car has been included as a business expense.
The journal entry required to correct this error is

- A debit motor vehicles account, credit capital account
- B debit capital account, credit motor vehicles account
- C debit motor running expenses account, credit motor vehicles account
- D debit drawings account, credit motor running expenses account

(1)

(g) A van costing £8 000 is sold for £500 after 5 years' use.
The provision for depreciation account relating to the van shows a credit balance of £6 000.
This means that, on the sale of the van, there is a

- A loss of £1 500
- B profit of £1 500
- C profit of £7 500
- D loss of £7 500

(1)

- (h) At the start of its year, a firm had brought forward a debit balance of £30 on the rent account.
During the year, the firm paid rent of £150, and carried forward a credit balance of £20.
The amount charged to the profit and loss account for rent was

- A £200
- B £180
- C £170
- D £150

(1)

- (i) A machine for use in the factory was purchased for £10 000.
£500 was paid to transport the machine to the factory. A repair costing £100 was made to the machine 3 weeks after it began producing.
The amount for the machine to be shown in the balance sheet should be

- A £10 000
- B £10 100
- C £10 500
- D £10 600

(1)

- (j) A day's total sales of £120 was posted from the day book to the debit of the sales account. As a result, the balance of the sales account was

- A overstated by £120
- B understated by £120
- C overstated by £240
- D understated by £240

(1)

Total for Question 1: 10 marks

Question 2

Throughout Question 2, assume that the rate of VAT is 10%.

S Webb's business sells electrical equipment. During December 2003, S Webb received the following invoices from suppliers.

Dec 7	Bhanderi Ltd., goods at list price £800 less 25% trade discount plus VAT (no cash discount was offered on this transaction).
Dec 21	Current Ltd., goods value £2 000 plus VAT. The invoice offered a cash discount of 5% for payment within 14 days.

- (a) Enter the above items into the purchases journal for December 2003. Total the purchases journal at the end of the month.

Purchases Journal

Date	Narration	Goods	VAT	Total

(6)

Goods were returned to suppliers during December and the following credit notes were received.

Dec 16	Bhanderi Ltd., goods list price £40 (these were some of the goods supplied on 7 December).
Dec 28	Kharaja Supplies, goods at list price £400 less a trade discount of 20% plus VAT (no cash discount had been offered on the invoice for these goods).

(b) Prepare the returns outward journal and total it at the end of the month.

Returns Outward Journal

Date	Narration	Goods	VAT	Total

(6)

As well as the information recorded in the purchases and returns outward journals, the following details are available regarding Bhanderi Ltd.

Dec 1	Balance of account: £2 000
Dec 9	Cheque sent in full settlement of the balance on 1 December less a cash discount of 5%.

- (c) Prepare the account of Bhanderi Ltd in S Webb's purchases ledger. Balance the account on 31 December and bring the balance down.

Bhanderi Ltd Account

Date	Narration	£		Date	Narration	£

(5)

As well as the VAT arising from credit purchases and returns out, the following transactions included VAT.

Dec 6	Purchase of stationery by cheque £200 plus VAT
Dec 12	Purchase of new office equipment from Arca Ltd, on credit £2 600 plus VAT
Dec 31	Cash sales for the month totalled £11 000 including VAT

- (d) Starting with the opening debit balance b/d of £5 000 at 1 December, prepare the VAT account in S Webb's nominal (general) ledger. Balance the account on 31 December and bring down the balance.

VAT Account

Date	Narration	£		Date	Narration	£

(6)

- (e) Explain fully what the balance of the VAT account represents.

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(2)

Total for Question 2: 25 marks

Question 3

C Penn and H Guest are partners in a retail business, sharing profits and losses equally. Here is the balance sheet as at 31 December 2003.

	£			£
Penn Capital	18 000		Buildings	29 000
Guest Capital	16 000		Equipment	3 300
Penn Current Account	1 070		Vehicles	2 240
Guest Current Account	160		Stock	7 124
Trade Creditors	5 392		Cash at bank and in hand	2 958
Loan	4 000			
	44 622			44 622

The following is a summary of C Penn and H Guest's transactions in the quarter ending 31 March 2004.

Summary of transactions

	£
Cash sales	17 980
Goods purchased on credit	12 284
Cheques sent to suppliers	11 840
Cash discount allowed by suppliers	148
Sundry expenses paid by cheque and in cash	1 440
Partners' cash drawings: Penn	800
Guest	600
Loan repayment	1 000
New equipment purchased by cheque	350

The following information is available at 31 March 2004:

- stock at 31 March 2004 is valued at £2 620
- allow for £40 loan interest due but unpaid
- depreciation for the quarter: equipment £80, vehicles £150
- the item 'sundry expenses £1 440' includes prepaid insurance of £18 for the following quarter. Apart from this item, all the sundry expenses relate to the current quarter.

- (a) Prepare the combined cash and bank account and the total creditors' account for the quarter ended 31 March 2004.

Leave blank

Cash and Bank Account

Date	Narration	£		Date	Narration	£

Total Creditors Account

Date	Narration	£		Date	Narration	£

(8)

*Leave
blank*

- (b) (i) Prepare the trading and profit and loss accounts (including the appropriation section) for the quarter ended 31 March 2004.

Trading and profit and loss account (including appropriation) of C Penn and H Guest for 3 months ended 31 March 2004

(9)

(ii) Prepare the balance sheet extract at 31 March 2004. Your balance sheet must include:

- capital accounts
- details of each partner’s current account
- long-term liabilities
- current liabilities.

There is no need to show fixed assets or current assets in the balance sheet.

Balance sheet extract at 31 March 2004

(8)

Total for Question 3: 25 marks

Section B
Answer all questions

*Leave
blank*

Question 4

On 30 April 2003, the totals of the trial balance drawn up for Abdul's business did not agree. The difference between the totals was entered in a suspense account. An investigation of the difference revealed the following errors relating to the period for which the trial balance had been prepared.

- The sales total had been undercast by £500.
- An extension to Abdul's home had been built during the year at a cost of £25 000. This amount had been debited to the business premises account and credited to the bank account. This should have been a private matter rather than a business transaction.
- Discount received £95.20 had been credited to the discount received account. The correct entry of £20.95 had been made in the supplier's account.
- Abdul had taken cash amounting to £200 from the business for his own use. No entries had been made for this.
- Goods for resale had been purchased by cheque for £300. The correct entry had been made in the purchases account but the bank account had been debited with £300.
- Sales on credit to S Shah £600 were debited to the account of B Shah.

- (a) Set out the journal entries for the items that do **not** involve the suspense account. Narratives are required and must state the **type** of error involved.

General Journal

	Debit	Credit

(3)

- (b) Write up the suspense account, including the opening balance. Assume that the trial balance totals agree after the errors have been corrected.

Suspense Account

Date	Narration	£		Date	Narration	£

(4)

- (c) Before discovery of the errors, which side of the trial balance was deficient (lighter) and by how much?

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(2)

- (d) State the main limitation (problem) of a trial balance.

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(1)

Total for Question 4: 10 marks

Question 5

(a) Explain the meaning of the terms ‘profitability’ and ‘liquidity’.

Profitability:

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Liquidity:

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(3)

(b) Give **two** accounting formulae used to measure a firm’s ‘profitability’.

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(2)

(c) Give **two** accounting formulae used to measure a firm's 'liquidity'.

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(2)

(d) Evaluate the figures given below, for two separate businesses taken over the same time period, in terms of **profitability** and **liquidity**.

Business A			Business B	
	£000			£000
Capital	200		Capital	160
Net profit	20		Net profit	40
Creditors	40		Creditors	80
Equipment	180		Premises	140
Bank	40		Debtors	10
Stock	20		Motor van	60
Debtors	20		Stock	20
Turnover	200		Equipment	40
			Bank	10
			Turnover	100

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(8)

Total for Question 5: 15 marks

Question 6

Blues Ltd has a registered capital of £420 000 divided into 400 000 ordinary shares of £1 each and 20 000 6% preference shares of £1 each.

The following balances remained in the accounts of the company after the trading and profit and loss accounts had been prepared for the year ended 30 April 2004.

	£	£
Light and heat accrued		175
VAT		15 000
Ordinary share capital: fully paid		400 000
6% preference share capital: fully paid		20 000
Cash at bank	25 000	
Profit and loss account balance 1 May 2003		90 000
Debtors and creditors	20 000	8 600
Net profit for year ended 30 April 2004		40 400
Machinery and plant at cost	200 000	
Provision for depreciation on machinery and plant		50 000
Stock	39 175	
Premises at cost	350 000	
General reserve		10 000
	634 175	634 175
	634 175	634 175

The directors have recommended:

- a transfer of £5 000 to general reserve
- an ordinary share dividend of 10%
- a provision for the full year's preference share dividend.

(a) Prepare the profit and loss appropriation account for year ended 30 April 2004.

Profit and loss appropriation account for year ended 30 April 2004

(3)

- (b) Prepare a balance sheet at 30 April 2004, showing fixed assets, current assets, current liabilities, working capital and shareholders' funds.

Balance sheet at 30 April 2004

(12)

Total for Question 6: 15 marks

Total for Paper 1: 100 marks

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IGCSE Accounting (4305)
Mark Scheme for Specimen Paper
Paper 1

Paper 1 – Assessment grid

Question	AO1	A02	A03	AO4	Totals
1(a)	1				
1(b)	1				
1(c)	1				
1(d)	1				
1(e)	1				
1(f)	1				
1(g)		1			
1(h)		1			
1(i)		1			
1(j)		1			
Totals Q1	6	4	0	0	10
2(a)	1	2	3	0	6
2(b)	2	2	2	0	6
2(c)	3	2	0	0	5
2(d)	1	2	3	0	6
2(e)	0	0	1	1	2
Totals Q2	7	8	9	1	25
3(a)	6	2	0	0	8
3(b)	5	6	6	0	17
Totals Q3	11	8	6	0	25
4(a)	0	0	3	0	3
4(b)	0	2	2	0	4
4(c)	0	0	2	0	2
4(d)	1	0	0	0	1
Totals Q4	1	2	7	0	10
5(a)	1	2	0	0	3
5(b)	0	2	0	0	2
5(c)	0	2	0	0	2
5(d)	2	2	3	1	8
Totals Q5	3	8	3	1	15
6(a)	3	0	0	0	3
6(b)	4	0	0	8	12
Totals Q6	7	0	0	8	15
TOTALS	35	30	25	10	100

Paper 1 – Mark Scheme

Question 1

- (a) B
- (b) C
- (c) B
- (d) A
- (e) D
- (f) D
- (g) A
- (h) A
- (i) C
- (j) D

10 x ✓ = 10 marks

Total for Question 1: 10 marks

Question 2

(a) Purchases Journal

Date	Narration	Goods		VAT		Total	
Dec 7	Bhanderi Ltd	800	✓				
	Less trade discount 25%	200	✓				
		600	✓	60	✓	660	✓
Dec 21	Current Ltd	2 000	✓	190	✓ ✓	2 190	✓
Dec 31	Totals	2 600	✓	250	✓	2 850	✓

12 x tick = 6 marks

(b) Returns Outward Journal

Date	Narration	Goods	VAT	Total
Dec 16	Bhanderi Ltd	40 ✓		
	Less trade discount	10 ✓		
		30 ✓	3 ✓	33 ✓
Dec 28	Kharaja Supplies	400 ✓		
	Less trade discount 20%	80 ✓		
		320	32 ✓	352 ✓
Dec 31 ✓	Totals	350 ✓	35 ✓	385 ✓

12 x tick = 6 marks

(c) Bhanderi Ltd Account

Date	Narration	£		Date	Narration	£
Dec 9	Bank	1900	✓	Dec 1	Balance b/d	2000 ✓
Dec 9	Disc Rec	100	✓	Dec 7	Purchases	660 ✓ ✓
Dec 16	Rets Outw	33	✓ ✓			
Dec 31	Balance c/d	627	✓ ✓			
		2660				2660
				Jan 1	Balance b/d	627 ✓

10 x tick = 5 marks

(d) VAT account

Date	Narration	£		Date	Narration	£
Dec 1	Balance b/d	5000 ✓		Dec 31	Cash (Sales)	1000 ✓ ✓
Dec 6	Bank (Stationery)	20 ✓		Dec 31	Sundry Creditors	35 ✓
Dec 12	Arca Ltd	260 ✓		Dec 31	Balance c/d	4495 ✓
Dec 31	Sundry Creditors	250 ✓				
		5530 ✓				5530 ✓
Jan 1	Balance b/d	4495 ✓ ✓				

12 x tick = 6 marks

- (e)** In the above case there are two balances on the VAT account, one at the beginning of December and one at the end. Both balances are debits and therefore assets (✓). HM Customs and Excise (✓) owes S Webb £5000 at the beginning of December (✓) and £4495 at the end of December (✓)

4 x tick = 2 marks

Total for Question 2: 25 marks

Question 3

(a) **Cash and Bank Account**

Total Creditors Account

Balance b/d	2 958	✓	Creditors	11 840	✓	Bank	11 840	✓	Bal b/d	5 392	✓
Sales	17 980	✓	Sundry Exps	1 440	✓	Disc Rec	148	✓	Purchases	12 284	✓
			Drawings F	800	✓	Bal c/d	5 688	✓ ✓			
			Drawings B	600	✓		<u>17 676</u>			<u>17 676</u>	
			Loan	1 000	✓						
			Equipment	350	✓						
			Balance c/d	4 908	✓ ✓						
	<u>20 938</u>			<u>20 938</u>							

16 x tick = 8 marks

(b) (i) **Trading and profit and loss account of Penn and Guest for 3 months ended 31 March 2004**

Opening Stock	7 124	✓				Sales	17 980	✓
Purchases	12 284	✓	19 408					
Less Closing Stock			2 620	✓				
Cost of sales			16 788					
Gross Profit			1 192	✓				
			<u>17 980</u>				<u>17 980</u>	
Sundry expenses	1 440	✓				Gross Profit	1 192	✓
Less prepaid Ins	18		1 422	✓		Discount Received	148	✓
Loan Interest owing			40	✓		Net Loss	352	✓
Depr. on Equipment	80	✓						
Depr. on Vehicles	150		230	✓				
			<u>1 692</u>				<u>1 692</u>	
Net Loss			352	✓		Share of Loss		
						Penn	176	✓ ✓
						Guest	176	✓ ✓
			<u>352</u>				<u>352</u>	

18 x tick = 9 marks

(ii) Balance sheet extract at 31 March 2004

Capital Accounts							
Penn	18 000 ✓						
Guest	16 000 ✓	34 000					
Current Accounts							
Penn Balance b/d	1 070 ✓						
-Share of Loss	-176 ✓						
-Drawings	-800 ✓	94 ✓					
Guest Balance b/d	160 ✓						
-Share of Loss	-176 ✓						
-Drawings	-600 ✓	-616 ✓					
Current Liabilities							
Creditors	5 688 ✓						
Loan interest owing	40 ✓	5 728 ✓					
Long Term Liabilities							
Loan	4 000 ✓						
Less repaid	1 000	3 000 ✓ ✓					

16 x tick = 8 marks

Total for Question 3: 25 marks

Question 4

(a) General Journal

	Debit	Credit
Drawings Dr	25 000	
Premises		25 000 ✓
Being correction of error of principle ✓		
Drawings Dr	200	
Cash		200 ✓
Being correction of error of principle ✓		
S Shah Dr	600	
B Shah		600 ✓
Being correction of error of commission ✓		

6 x ✓ = 3 marks

(b) Suspense Account

Date	Narration	£		Date	Narration	£
	Sales	500.00	✓ ✓		Balance b/d ✓ ✓	1 025.75
	Bank	600.00	✓ ✓		Discount Received	74.25 ✓ ✓
		<u>1 100.00</u>				<u>1 100.00</u>

8 x ✓ = 4 marks

(c) Credit side deficient ✓ ✓ by £1 025-75 ✓ ✓

4 x ✓ = 2 marks

(d) Each only checks arithmetical accuracy. There are errors (6 types) that go undetected in both trial balance and sales ledger control account ✓ ✓

2 x ✓ = 1 mark

Total for Question 4: 10 marks

Question 5

- (a) Profitability measures how much profit a firm has made ✓. This can be compared with capital or sales to give more meaningful information ✓ ✓

Liquidity measures the ease with which a firm can pay its debts ✓ as they fall due ✓ ✓

Award one ✓ for statement and further ✓ ✓ for development.

6 x ✓ = 3 marks

- (b) Any 2 acceptable formulae for profitability
e.g. Net Profit/Capital ✓ times 100/1 ✓
Gross Profit/Sales ✓ time 100/1 ✓ etc

4 x ✓ = 2 marks

- (c) Either Current ratio or Quick Assets ratio
Current Ratio = Current Assets: Current Liabilities ✓ ✓
Quick Assets Ratio = Current Assets – Stock: Current Liabilities ✓ ✓

4 x ✓ = 2 marks

- (d) Award up to ✓ ✓ for each correct calculation
2 profitability and 2 liquidity required gives

8 x ✓ = 4 marks

Award up to ✓ ✓ for 2 comparative points gives

4 x ✓ = 2 marks

Award up to ✓ ✓ ✓ ✓ for an acceptable conclusion

4 x ✓ = 2 marks

e.g. B's return on capital is 25% in comparison to A's 10% ✓ ✓

B's NP% is 40% in comparison to A's 10%

B's Current Ratio is 0.5:1 in comparison to A's 2:1 ✓ ✓

Example Conclusion

Business A appears to be the much safer business, it has an ideal liquidity situation so will comfortably be able to meet its current liabilities. However, its profitability is low in comparison to Business B ✓

Business B makes excellent profits from a lower capital base but it might be overstretching itself reflected by its liquidity problems ✓ ✓

Overall Business B is the better bet providing its creditors stay friendly ✓ ✓

Total for Question 5: 15 marks

Question 6

(a) Blues Limited

Profit and loss appropriation account for year ended 30 April 2004

Balance b/d		90 000 ✓
Net profit		40 400 ✓
		130 400
General reserve	5 000 ✓	
Proposed ordinary share dividend	40 000 ✓	
Proposed preference share dividend	1 200 ✓	46 200
Balance c/d		84 200 ✓

6 x ✓ = 3 marks

(b) Balance sheet at 30 April 2004

Fixed Assets	Cost/Valuation	Agg Depreciation	Net Value
Premises	350 000 ✓		350 000 ✓
Machinery and Plant	200 000 ✓	50 000	150 000 ✓
			500 000 ✓
Current Assets			
Stock	39 175 ✓		
Debtors	20 000 ✓		
Cash and bank	25 000 ✓	84 175 ✓	
Less Current Liabilities			
Light & heat accrued	175 ✓		
Proposed ordinary share dividend	40 000 ✓		
Creditors	8 600 ✓		
Proposed preference share dividend	1 200 ✓		
VAT	15 000 ✓	64 975 ✓	
Working Capital			19 200 ✓
			519 200
Represented by			
400 000 £1 Ord Shares fully paid ✓		400 000 ✓	
20 000 £1 6% Pref shares fully paid ✓		20 000 ✓	
Profit and loss b/d		84 200 ✓	
General reserve	10 000 ✓		
Add transfer	5 000	15 000 ✓	
Shareholders' Funds			519 200 ✓
			519 200

24 x ✓ = 12 marks

Total for Question 6: 15 marks

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