MARK SCHEME for the March 2015 series

0452 ACCOUNTING

0452/22   Paper 2, 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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the March 2015 series for most Cambridge IGCSE® components.

1 (a) Bad debts
Amounts owing to a business **(1)** which will not be paid by the credit customer **(1)**

Bad debts recovered
Amounts received **(1)** from a credit customer after the amount was written off as a bad debt **(1)**

Provision for doubtful debts
An estimate **(1)** of the amount which a business will lose because of bad debts **(1)**   **[6]**

(b) Reduce credit sales/sell on a cash basis
Obtain references from new credit customers
Fix a credit limit for each customer
Improve credit control
Issue invoices and monthly statements promptly
Refuse further supplies until outstanding balance is paid
Any 2 points (1) each   **[2]**

(c) A provision for doubtful debts ensures that
the profit for the year is not overstated **(1)**
the trade receivables are not overstated **(1)**   **[2]**

(d)
<div align="center">Nisha Sharma
Journal</div>

		Debit $	Credit $	
1	Bad debts	150		**(1)**
	AX Limited		150	**(1)**
	Amount owed by AX Limited written off			**(1)**
2	Provision for doubtful debts	21		**(1)**
	Income statement		21	**(1)**
	Reduction in provision for doubtful debts			**(1)**

      [6]

(e)

	Overstated $	Understated $
Bad debts written off	*150*	
Bad debts recovered		123 **(2)**
Adjustment to provision for doubtful debts		21 **(2)OF**

(1) for direction and (1) for amount for each item   **[4]**

[Total: 20]

2 **(a)** $\dfrac{\$640}{1} \times \dfrac{100}{80} = \$800$ **(1)** [1]

(b) Any returns must be recorded at the price which the customer was originally charged for those goods. **(1)** [1]

(c)

February	Transaction	Document	
4	Payment	Cheque counterfoil	**(1)**
8	Purchases	Invoice	**(1)**
14	Purchases returns	Credit note	**(1)**

[3]

(d)

Nirmal Singh
Ansari Road account

		$				$	
2015				2015			
Feb 14	Returns	280 **(1)**		Feb 1 Balance b/d		560 **(1)**	
26	Bank	546 **(1)**		8 Purchases		640 **(1)**	
	Discount	14 **(1)**					
28	Balance c/d	360					
		1200				1200	
				2015			
				Mar 1 Balance b/d		360 **(1)**O/F	

T Marks account

		$				$	
2015				2015			
Feb 4	Bank	200 **(1)**		Feb 1 Balance b/d		200 **(1)**	
28	Balance c/d	690		10 Bank (dis chq)		200 **(1)**	
				19 Purchases		480 **(1)**	
				28 Interest		10 **(1)**	
		890				890	
				2015			
				Mar 1 Balance b/d		690 **(1)**O/F	

+ (1) dates [13]

[Total: 18]

3 (a)

Amla Khan
Rates and insurance account

		$					$
2014				2014			
Jan 1	Balance b/d			Jan 1	Balance b/d		
	Insurance	700 **(1)**			Rates		480 **(1)**
Dec 31	Bank - rates	2560 **(1)**		Dec 31	Income statement		
	Insurance	2400 **(1)**			Rates	1920 **(1)**	
					Insurance	2300 **(1)**	4220
					Balance c/d		
					Rates	160	
					Insurance	800	960
		5660					5660
2015							
Jan 1	Balance b/d						
	Rates	160					
	Insurance	800	960 **(2) CF**				
			(1) OF				

+ (1) dates   **[9]**

(b) Current assets **(1)**
Both the rates and insurance are prepaid at the end of the year **(1)**   **[2]**

(c)

Amla Khan
Rent receivable account

		$				$
2014				2014		
Dec 31	Income statement	1200 **(1)**		Oct 1 Bank		800 **(1)**
				Dec 31 Balance c/d		400
		1200				1200
2015						
Jan 1	Balance b/d	400 **(1)OF**				

+ (1) dates   **[4]**

(d) Current assets **(1)**
Rent receivable is owed by the tenant **(1)**   **[2]**

                                                                                    [Total: 17]

4 (a) Gross profit = 164 000 – 125 542 = 38 458 **(1)**

$$\left.\frac{38\,458}{164\,000}\right\}(1) \times \frac{100}{1} = 23.45\% \textbf{ (1)}$$ **[3]**

(b) Decrease in selling price
Increase in trade discount allowed to customers
Selling at lower mark-up
Increase in cost price
Reduction in trade discount allowed by suppliers
Not taking advantage of bulk buying
Any 2 reasons (1) each **[2]**

(c) Profit for the year = 38 458 **OF** – 24 748 = 13 710 **(1)OF**

$$\left.\frac{13\,710 \textbf{ OF}}{164\,000}\right\}(1) \times \frac{100}{1} = 8.36\% \textbf{ (1)OF}$$ **[3]**

(d) (18 150 + 15 300 + 120) : (10 960 + 7 150)
= 33 570 : 18 110 **(1) (whole formula)**
= 1.85 : 1 **(1)** **[2]**

(e) Current assets almost twice the current liabilities
Can meet the current liabilities from the current assets
Slightly lower than the "benchmark" of 2:1
Appears to be adequate
Comments to be based on answer to (d)
Any 2 comments (1) each **[2]**

(f) (15 300 + 120) : (10 960 + 7 150)
= 15 420 : 18 110 **(1) (whole formula)**
= 0.85: 1 **(1)** **[2]**

(g) Increase in bank overdraft/change from debit to credit bank balance
Purchase of non-current assets
Repayment of long-term loan
Increase in inventory
Increase in dividends paid
Any 1 reason (1) **[1]**

(h) $\dfrac{15\,300}{154\,400} \times \dfrac{365}{1}$ **(1) (whole formula)**
= 36.17 = 37 days **(1)** **[2]**

  (i) Unsatisfied **(1)** – if answer to **(h)** is 31 days or over
     Or Satisfied **(1)** – if answer to **(h)** is 30 days or less

     Taking 7 days more than credit period allowed
     Have to wait longer than expected to receive the money
     May have knock-on effect for paying trade payables
     May mean shortage of funds available for other things
     Or appropriate comments based on OF answer to (h)
     Any 1 comment (1)   **[2]**

                                              [Total: 19]

5 (a)

<div align="center">

LWS Limited
Income Statement for the year ended 30 November 2014

</div>

	$	$
Fees from clients (199 500 **(1)** + 4500 **(1)**)	204 000	
Other income	17 300	221 300
General expenses	36 140	
Wages (98 200 **(1)** + 12 600 **(1)**)	110 800	
Insurance (3450 **(1)** – 690 **(1)**)	2 760	
Depreciation		
Equipment (20% x (65 000 – 23 400)	8 320 **(1)**	
Fixtures and fittings		
((10% × 24 000)**(1)** + (10% × 7200 × 5/12) **(1)**)	2 700	160 720
Profit for the year		60 580 **(1)OF**

[10]

(b)

<div align="center">

LWS Limited
Statement of Changes in Equity for the year ended 30 November 2014

</div>

Details	Share capital $	General reserve $	Retained earnings $	Total $	
On 1 December 2013	350 000	95 000	13 200	458 200	
Profit for the year			60 580	60 580	**(1)OF**
Dividend paid – interim			(17 500)	(17 500)	**(1)**
Dividend paid – final			(35 000)	(35 000)	**(1)**
Transfer to general reserve		12 000	(12 000)		**(1)**
Share issue	50 000			50 000	**(1)**
On 30 November 2014	400 000	107 000	9 280	516 280	**(1)OF**

[6]

(c) Long term loans
Debenture holders are not members of the company
Do not carry voting rights
Carry a fixed rate of interest
Interest is not dependent on the company's profit
Are often secured on the assets of the company
Debenture holders are repaid before the shareholders in a winding-up
Any 2 features (1) each   **[2]**

(d) Carry a fixed rate of dividend
Dividend may not be paid if there is not enough profit
Dividend is paid before ordinary share dividend
Preference shareholders are members of the company
Do not usually carry voting rights
Capital is repaid before ordinary share capital in a winding-up
Are not secured on the assets of the company
Any 2 features (1) each [2]

(e) No prior claims on the profit
No fixed interest or dividend to pay
All the shares will rank equally for dividend
No prior claims on the assets in a winding-up
No fixed date for repayment
Any 2 points (1) each [2]

[Total: 22]

6 (a) Additional finance is available
Additional knowledge, skills and experience are available
The risks are shared
The losses are shared
The responsibilities are shared
Discussions can take place before decisions are taken
Any 2 advantages (1) each [2]

(b) To avoid misunderstandings and disagreements in the future **(1)** [1]

(c) Ben and Tom Panesar
Profit and Loss Appropriation Account for the year ended 31 January 2015

		$	$
Profit for the year			27 920
Interest on drawings	Ben	490 **}**	
	Tom	1 040 **}(1)**	1 530
			29 450
Interest on capital	*Ben		
	3% × 90 000 × 6/12	1 350 **(1)**	
	3% × 100 000 × 6/12	1 500 **(1)**	
		2 850	
	Tom		
	3% × 60 000	1 800 **(1)**	
		4 650	
Partnership salary	Tom		
	(3000 **(1)** + 8000 **(1)**)	11 000	15 650
Residual profit			13 800
Share of profit	Ben	9 200 **(1)OF**	
	Tom	4 600 **(1)OF**	
			13 800

[8]

*OR   3% x 90 000   2 700 **(1)**
       3% x 10 000 × 6/12   150 **(1)**

(d)

Ben and Tom Panesar
Statement of Financial Position at 31 January 2015

	$	$	$
Assets			
Non-current assets			
Premises (cost)			95 000
Machinery and equipment (book value)			46 500
			141 500 **(1)**
Current assets			
Inventory			28 750
Trade receivables			30 360
Bank			5 870
			64 980 **(1)**
Total assets			206 480

Capital and liabilities

	Ben	Tom	Total	
Capital accounts	100 000	60 000	160 000	**(1) both**
Current accounts				
Interest on loan		600 **(1)**		
Interest on capital	2 850	1 800 **(1)OF (both)**		
Salary		11 000 **(1)OF**		
Profit share	9 200	4 600 **(1)OF (both)**		
	12 050	18 000		
Drawings	9 800	20 800 **(1) (both)**		
Interest on drawings	490	1 040 **(1) (both)**		
	10 290	21 840		
Closing balance	1 760 **(1)OF**	(3 840) **(1)OF**		
			(2 080)	
			157 920	

			$
Non-current liabilities			
Loan – Tom			15 000 **(1)**
Current liabilities			
Trade payables			32 170
Other payables			1 390
			33 560 **(1)**
Total liabilities			206 480

[13]

[Total: 24]

Alternate presentation of current accounts.

<table>
<thead>
<tr>
<th colspan="6" align="center">Current accounts</th>
<th></th>
<th></th>
<th></th>
</tr>
<tr>
<th></th>
<th></th>
<th></th>
<th>Ben</th>
<th>Tom</th>
<th></th>
<th></th>
<th>Ben</th>
<th>Tom</th>
</tr>
<tr>
<th></th>
<th></th>
<th></th>
<th>$</th>
<th>$</th>
<th></th>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2015</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jan 31</td>
<td>Drawings</td>
<td>(1)</td>
<td>9 800</td>
<td>20 800</td>
<td>Jan 31</td>
<td>Interest on loan (1)OF</td>
<td></td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>Interest on</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Interest on</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Drawing</td>
<td>(1)</td>
<td>490</td>
<td>1 040</td>
<td></td>
<td>capital (1)OF</td>
<td>2 850</td>
<td>1 800</td>
</tr>
<tr>
<td></td>
<td>Balance c/d</td>
<td></td>
<td>1 760</td>
<td></td>
<td></td>
<td>Salary (1)</td>
<td></td>
<td>11 000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Profit share (1)OF</td>
<td>9 200</td>
<td>4 600</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Balance c/d</td>
<td></td>
<td>3 840</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12 050</td>
<td>21 840</td>
<td></td>
<td></td>
<td>12 050</td>
<td>21 840</td>
</tr>
</tbody>
</table>

+ (1) OF for each balance if shown in statement of financial position making a total of (8) for the current accounts