MARK SCHEME for the October/November 2012 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 October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.
1 (a) Zabeel

Manufacturing Account for the year ended 31 October 2012

$      $  
Cost of materials consumed
Purchases of raw materials  54 300 (1) 
Less Purchases returns  2 100 (1)  
52 200  
Carriage on purchases  480 (1)  
52 680  
Less Closing inventory of raw materials  4 300 (1) 48 380  
Direct factory wages (46 000 + 2150)  48 150 (1)  
Prime cost  96 530 (1) O/F  
Factory overheads
Indirect wages  11 210 (1)  
General expenses (21 660 – 370)  21 290 (1)  
Rates and insurance (60% x 6000)  3 600 (1)  
Depreciation – Machinery (20% x 64 500)  12 900 (1)  
Loose tools (980 + 130 – 820)  290 (1) 49 290 (1) O/F  
Less Closing work in progress  10 200 (1)  
Production cost of goods completed  135 620 (1) O/F  

(b) Zabeel

Income Statement for the year ended 31 October 2012

$      $  
Revenue  183 400 (1)  
Less Sales returns  2 600 (1) 180 800  
Less Cost of sales  
Production cost of goods completed  135 620 (1) O/F  
Purchases of finished goods  9 200 (1)  
144 820  
Less Closing inventory of finished goods  12 620 (1) 132 200 (1) O/F  
Gross profit  48 600 (1) O/F  

(c) (i) Lower of cost and net realisable value  [1]  
(ii) Prudence  [1]  

(d) (i) Realisation  [1]  
(ii) Business entity  [1]  

[Total: 24]
2 (a) Nancy Tanwin
Rent received account

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Balance/bank/cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$432</td>
<td>$216</td>
</tr>
</tbody>
</table>

Oct 31 Income statement
- 2012: $2592 (2)C/F
- 2012: (1)O/F

Nov 1 Balance b/d: $216 (1) O/F

(b) Current liabilities (1)
Nancy Tanwin has a liability to provide a benefit for which she has already been paid. (1) [2]

(c) Nancy Tanwin
Advertising expenses account

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$74</td>
<td>$74</td>
</tr>
<tr>
<td>2012</td>
<td>1200</td>
<td>500</td>
</tr>
</tbody>
</table>

Nov 1 Balance b/d: $700 (1) O/F

(d) Effect on capital employed

<table>
<thead>
<tr>
<th>Overstate</th>
<th>Understated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>
(e) Nancy Tanwin
Statement of corrected profit/loss for the year ended 31 October 2012

Profit for the year before corrections $ (550)

<table>
<thead>
<tr>
<th>Error</th>
<th>Increase in profit</th>
<th>Decrease in profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>1100 (2)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>No effect (2)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>310 (2)</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>260 (2)</td>
<td></td>
</tr>
</tbody>
</table>

____ 1360 330 1030

Corrected profit for the year 480 (1) O/F

[9]

[Total: 24]

3 (a) The liability of the ordinary shareholders for the debts of the company is limited to the amount they agree to pay the company for their shares. [2]

(b) Ordinary shareholders are members (owners) of the company: debenture holders are lenders.
Ordinary shares carry voting rights: debentures do not carry voting rights.
Ordinary shareholders receive a dividend; debenture holders receive interest.
Ordinary shareholders receive a variable return on their shares: debentures holders received a fixed interest rate.
Ordinary share dividend is a share of profit and may not be paid if there is no profit:
debenture interest is an expense and is payable irrespective of profits
In the event of a winding-up, debentures are repaid before ordinary shares.
Debentures have to be repaid but ordinary shares do not

Any 2 points (2) each [4]
(c) White Rose Ltd
Profit and Loss Appropriation Account for the year ended 31 August 2012

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>36 000 (1)</td>
</tr>
<tr>
<td>Less Transfer to general reserve</td>
<td>10 000 (1)</td>
</tr>
<tr>
<td>Ordinary share dividend – paid (1)</td>
<td>5,250 (1)</td>
</tr>
<tr>
<td>proposed (1)</td>
<td>7,000 (1)</td>
</tr>
<tr>
<td>Retained profit for the year</td>
<td>13,750 (1) O/F</td>
</tr>
<tr>
<td>Retained profit brought forward</td>
<td>7,300 (1)</td>
</tr>
<tr>
<td>Retained profit carried forward</td>
<td>21,050 (1) O/F</td>
</tr>
</tbody>
</table>

[9]

(d) White Rose Ltd
Extract from Balance Sheet at 31 August 2012

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Reserves</td>
<td></td>
</tr>
<tr>
<td>Ordinary shares of $0.50 each</td>
<td>175,000 (1)</td>
</tr>
<tr>
<td>General reserve (18,500 + 10,000)</td>
<td>28,500 (2)</td>
</tr>
<tr>
<td>Retained profit</td>
<td>21,050 (2) C/F</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[5]

(e) White Rose Ltd
Extract from Balance Sheet at 31 August 2012

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current liabilities</td>
<td></td>
</tr>
<tr>
<td>5% Debentures of $100 each</td>
<td>100,000 (2)</td>
</tr>
</tbody>
</table>

[2]

[Total: 22]
4 (a) Work can be shared amongst several people
Easier for reference as the same type of accounts are kept together
Easier to introduce checking procedures

Any 1 point (1) [1]

(b) Ruth Van Zyl
Purchases Ledger Control account

<table>
<thead>
<tr>
<th>Date</th>
<th>2012</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>30 Returns</td>
<td>1 160 (1)</td>
<td>11 740 (1)</td>
</tr>
<tr>
<td>Bank</td>
<td>8 730 (1)</td>
<td>Interest</td>
</tr>
<tr>
<td>Discount</td>
<td>270 (1)</td>
<td>90 (1)</td>
</tr>
<tr>
<td>Balance</td>
<td>11 150</td>
<td>c/d 160</td>
</tr>
<tr>
<td></td>
<td>21 520</td>
<td></td>
</tr>
</tbody>
</table>

2012          2012          
Oct 1 Balance | b/d       | b/d         | 160 (1)     | Oct 1 Balance | b/d         |
| O/F          | 11 150     | (2)C/F      | (1)O/F      |

+(1) Dates [11]

(c) Assist in the location of errors
Provide instant total of trade payables
Proves the arithmetical accuracy of the purchases ledger/the ledger they control
Enables a balance sheet to be prepared quickly
Provides a summary of the transactions relating to trade payables
May reduce fraud

Any 2 points (1) each [2]
(d) Item | Entry in sales ledger control account
--- | ---
(ii) Sales returns | Credit (1)
(iii) Bad debt written off | Credit (1)
(iv) Provision for doubtful debts | No entry (1)
(v) Credit customer's cheque dishonoured | Debit (1)

[4]

(e) Ruth Van Zyl
Journal

<table>
<thead>
<tr>
<th></th>
<th>Debit $</th>
<th>Credit $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilhelm</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Interest receivable</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Interest charged on overdue account</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Ansie (purchases ledger account)</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Ansie (sales ledger account)</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Transfer of balance of purchases ledger account to sales ledger account</td>
<td></td>
<td>(1)</td>
</tr>
</tbody>
</table>

[6]

[Total: 24]
5 (a) Total trade receivables account

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
<th>2012</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct 1 Balance b/d</td>
<td>4 950</td>
<td>(1)</td>
<td>Sept 30 Bank</td>
<td>56 360</td>
</tr>
<tr>
<td>2012</td>
<td>Discount</td>
<td>1 640</td>
<td>(1)</td>
<td></td>
</tr>
<tr>
<td>Sept 30 Sales</td>
<td>60 600</td>
<td>(1)</td>
<td>Bad debts</td>
<td>1 260</td>
</tr>
<tr>
<td>_________</td>
<td></td>
<td></td>
<td>_________</td>
<td></td>
</tr>
<tr>
<td></td>
<td>65 550</td>
<td></td>
<td></td>
<td>65 550</td>
</tr>
</tbody>
</table>

Alternative presentation

Calculation of sales for the year

\[
\begin{align*}
\text{Receipts from customer} & \quad 56 360 \ (1) \\
\text{Discounts allowed} & \quad 1 640 \ (1) \\
\text{Bad debts} & \quad 1 260 \ (1) \\
\text{Amount owing 30 September 2012} & \quad 6 290 \ (1) \\
\text{Less Amounts owing 1 August 2011} & \quad 4 950 \ (1) \\
\text{Sales for the year} & \quad 60 600 \ (1)
\end{align*}
\]

(b) \[ \frac{25}{125} \times \frac{60 600}{1} \text{ OF} = 12 120 \ (2) \text{ O/F} \]

(c) Sales \ 60 600 \text{ O/F}  \\
Gross profit \ 12 120 \text{ O/F}  \\
Cost of sales \ 48 480 \ (2) \text{ O/F}  

(d) \[ \frac{48 480}{6 000} \text{ O/F} = 8.08 \text{ times} \ (2) \text{ C/F} \]

(e) Reduce inventory levels  
Generate more sales activity  
Only replace inventory when needed

Any 2 points (2) each

(f) \[ \frac{(5800 + 6290 + 100)}{(6150 + 1240)} = \frac{12 190}{7390} \ (1) \text{ C/F} : 1 \text{ C/F} \]
\[ = 1.649 : 1 \]
\[ = 1.65 : 1 \ (1) \text{ C/F} \]

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(g) \[(6290 + 100) : (6150 + 1240)\]
\[= \frac{6390}{6150 + 1240}\]
\[= \frac{6390}{7390}\]
\[= 0.86 \text{ C/F} \]

(h) Inventory is not included in the calculation of the quick ratio (1)

Either
Inventory is not regarded as a liquid asset – a buyer has to be found and then the money collected. (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)

(i) Introduce additional capital
Reduce drawings
Sell surplus non-current assets
Obtain long-term loan

Any 1 point (2)

[Total: 26]