**Cambridge International Examinations**
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

*5841277055*

**ACCOUNTING** **0452/22**

Paper 2 **February/March 2018**

**1 hour 45 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your Centre number, candidate number and name on all the work you hand in.
Write in dark blue or black pen.
You may use an HB pencil for any diagrams or graphs.
Do not use staples, paper clips, glue or correction fluid.
DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.
You may use a calculator.

Where layouts are to be completed, you may not need all the lines for your answer.
The businesses mentioned in this Question Paper are fictitious.

At the end of the examination, fasten all your work securely together.
The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **21** printed pages and **3** blank pages.

DC (ST) 144913/2


CAMBRIDGE
International Examinations

**[Turn over**

**1** Kamika is a clothing wholesaler who buys and sells on both cash and credit terms. She maintains a full set of accounting records and prepares monthly control accounts.

**REQUIRED**

**(a)** State **two** advantages to Kamika of preparing a monthly sales ledger control account.

1 ..........................................................................................................................

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2 ..........................................................................................................................

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**(b)** State **two** reasons why it is possible for Kamika to have a credit balance on her sales ledger control account.

1 ..........................................................................................................................

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2 ..........................................................................................................................

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**(c)** Complete the following table. Place a tick (✓) to show where **each** item would appear in Kamika's **purchases ledger control account**. If the item would not appear, place a tick (✓) in the no entry column.

| | debit | credit | no entry |
|---|---|---|---|
| opening balance owed to credit suppliers | | | |
| credit purchases | | | |
| cash purchases | | | |
| cash discount received | | | |
| trade discount received | | | |
| cheques paid to credit suppliers | | | |
| interest charged by credit suppliers | | | |
| returns to credit suppliers | | | |
| contra between sales and purchases ledgers | | | |

[9]

Kamika applies all the accounting principles when maintaining accounting records and preparing financial statements.

**REQUIRED**

**(d)** Name the accounting principle applied in **each** of the following situations.

| | principle |
|---|---|
| Kamika uses the double entry system of book-keeping when recording transactions in her ledgers. | |
| Kamika adjusted the charge for insurance in the income statement for an amount prepaid at the year-end. | |
| Kamika adjusts her provision for doubtful debts at the end of each year so it is always 3% of her trade receivables. | |
| Kamika intends to trade for several years and values her premises at net book value, not expected sales value, in her statement of financial position. | |
| Kamika did not make any entry in her accounting records when a competitor reduced his prices even though it may affect her sales. | |
| Kamika did not make any entry in her accounting records when a customer asked for goods to be put aside for him to collect sometime in the future. | |

[6]

Kamika purchases fuel for her motor vehicles in bulk and stores it on her own premises.

Her transactions for the year ended 31 January 2018 included the following:

| | | |
|---|---|---|
| 2017 | | $ |
| March 31 | Paid by cheque the balance owed to Fuel2go less 2½% cash discount | |
| June 4 | Purchased fuel for motor vehicles and paid by cheque | 210 |
| December 10 | Purchased fuel for motor vehicles on credit from Fuel2go | 3200 |

On 31 January 2018 Kamika's inventory of fuel was $1100.

**REQUIRED**

**(e)** Enter the transactions in the following accounts in Kamika's ledger for the year ended 31 January 2018.

Close the accounts by balancing or by making a transfer to the income statement.

Kamika
Fuel2go account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| .......... | ...................................... | .............. | *2017* *Feb 1* | *Balance b/d* | *800* |
| .......... | ...................................... | .............. | .......... | ...................................... | .............. |
| .......... | ...................................... | .............. | .......... | ...................................... | .............. |
| .......... | ...................................... | .............. | .......... | ...................................... | .............. |
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Fuel expenses account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| *2017* | | | | | |
| *Feb 1* | *Balance b/d* | *950* | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
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[9]

[Total: 28]

**2** Dipak is a manufacturer. His financial year ends on 30 November.

Dipak depreciates all his non-current assets at the end of each year.

**REQUIRED**

**(a)** Explain how providing for depreciation of non-current assets is an application of the principle of prudence.

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Dipak depreciates his motor vehicles using the reducing (diminishing) balance method at 20% per annum on all motor vehicles held at the end of each financial year. No depreciation is charged in the year of disposal.

On 1 December 2015 Dipak owned motor vehicle A, which had cost $40 000 and had been depreciated by $14 400.

On 1 August 2016 Dipak purchased motor vehicle B on credit from ZY Motors for $50 000.

**REQUIRED**

**(b)** Prepare a journal entry to record the purchase of motor vehicle B.

A narrative is **not** required.

Dipak
Journal

| | Debit<br>$ | Credit<br>$ |
|---|---|---|
| .................................................................................... | ........................ | ........................ |
| .................................................................................... | ........................ | ........................ |
| .................................................................................... | ........................ | ........................ |

[2]

**(c)** Calculate the depreciation on motor vehicle A for **each** of the two years ended 30 November 2016 and 30 November 2017.

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**(d)** Calculate the depreciation on motor vehicle B for **each** of the two years ended 30 November 2016 and 30 November 2017.

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**(e)** Prepare a journal entry to record the transfer to the income statement of the **total** depreciation on motor vehicles for the year ended 30 November 2017.

A narrative is **not** required.

Dipak
Journal

| | Debit<br>$ | Credit<br>$ |
|---|---|---|
| .................................................................................. | ........................ | ........................ |
| .................................................................................. | ........................ | ........................ |
| .................................................................................. | ........................ | ........................ |

[2]

Dipak sold motor vehicle A on 31 December 2017.

**REQUIRED**

**(f)** Calculate the total depreciation provided on motor vehicle A up to the date of disposal.

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**(g)** Prepare journal entries to record the following:

1 the transfer of the original cost of motor vehicle A from the asset account

2 the transfer of the accumulated depreciation on motor vehicle A from the provision for depreciation account.

Narratives **are** required.

Dipak
Journal

| | | Debit<br>$ | Credit<br>$ |
|---|---|---|---|
| 1 | .................................................................................. | ........................ | ........................ |
| | .................................................................................. | ........................ | ........................ |
| | .................................................................................. | ........................ | ........................ |
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[6]

[Total: 18]

**PLEASE TURN OVER**

**3** The ND Sports Club was formed on 1 January 2017.

As well as providing sporting facilities for members the club also has a café for members and guests. Café supplies are purchased on credit and all café sales are made on cash terms.

The treasurer provided the following information on 31 December 2017.

| | | $ |
|---|---|---|
| Receipts during the year | Subscriptions | 14850 |
| | Receipts from café sales | 9520 |
| | Net income from competition | 710 |
| | Interest-free loan from Sport4U | 5000 |
| | | 30080 |
| Payments during the year | Sports equipment | 6200 |
| | Café fixtures and fittings | 3500 |
| | Wages – sports coach | 6000 |
| | café assistant | 4000 |
| | General club expenses | 540 |
| | Rent and insurance | 3700 |
| | Café suppliers | 5760 |
| | | 29700 |

Additional information

1 At 31 December 2017
Café inventory was valued at $970.
Café suppliers were owed $130.
Café assistant's wages accrued amounted to $160.

2 The payment for rent and insurance included $1200 for 12 months to 31 January 2018.

3 One quarter of the rent and insurance is to be allocated to the café.

4 The club has 300 members. The annual subscription is $50. On 31 December 2017 subscriptions were outstanding from 10 members and 7 members had already paid their subscription for 2018.

5 Sports equipment and café fixtures and fittings are to be depreciated by 20% on cost.

**REQUIRED**

**(a)** Prepare the café income statement for the year ended 31 December 2017.

ND Sports Club
Café Income Statement for the year ended 31 December 2017

| | $ | $ |
|---|---|---|
| .......................................................................... | ......................... | ......................... |
| .......................................................................... | ......................... | ......................... |
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[7]

**(b)** Prepare the income and expenditure account for the year ended 31 December 2017.

ND Sports Club
Income and Expenditure Account for the year ended 31 December 2017

| | $ | $ |
|---|---|---|
| .......................................................... | .................... | .................... |
| .......................................................... | .................... | .................... |
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[9]

**(c)** State **one** item in the list of receipts and payments which does **not** appear in the income and expenditure account. Give a reason for your answer.

Item ..........................................................................................................

Reason ..........................................................................................................

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**(d)** State **one** item in the income and expenditure account which does **not** appear in the list of receipts and payments. Give a reason for your answer.

Item ..........................................................................................................................

Reason ......................................................................................................................

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A member of the club has suggested that any surplus made by the club should be distributed among the members.

**REQUIRED**

**(e)** Comment on this suggestion.

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The owner of the premises rented by the club has offered to sell them to the club for $90 000. A decision has to be made by 31 August 2018.

A member of the committee has suggested increasing subscriptions and holding fund-raising events in order to raise the necessary finance.

**REQUIRED**

**(f)** State why the member's suggestions are **not** suitable methods of raising the necessary finance.

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**(g)** Suggest **one** way in which the club could raise the necessary finance.

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[Total: 24]

4 Amaira is an office equipment wholesaler. Her financial year ends on 31 January.

Amaira has little knowledge of accounting but attempted to prepare financial statements on 31 January 2018.

The statement of financial position (containing errors) which Amaira prepared on 31 January 2018 was as follows.

| | $ |
|---|---|
| Premises at cost | 85 000 |
| Fixtures and fittings at cost | 40 000 |
| Trade receivables | 14 000 |
| Drawings | 7 000 |
| Inventory at 1 February 2017 | 18 000 |
| Bank overdraft | 7 241 |
| | 171 241 |
| | |
| Capital at 1 February 2017 | 100 000 |
| Profit for the year | 14 735 |
| Provision for doubtful debts at 1 February 2017 | 450 |
| Provision for depreciation of fixtures and fittings at 31 January 2018 | 19 520 |
| Trade payables | 15 144 |
| Loan from EasyLoans (repayable 30 June 2018) | 20 000 |
| | 169 849 |
| Balance | 1 392 |
| | 171 241 |

The opening inventory was $2000 lower than the closing inventory.

In addition to the obvious errors in the statement of financial position the following errors were discovered.

1 On 1 August 2017 a motor vehicle costing $11 000, was purchased by cheque. This was only recorded in the cash book. The motor vehicle should be depreciated by 25% per annum from the date of purchase.

2 No entry has been made for bank charges, $150.

3 No adjustment has been made to the provision for doubtful debts which should be maintained at 3% of trade receivables at the end of each financial year.

4 The balance of the petty cash book, $90, was not included in the statement of financial position.

**REQUIRED**

**(a)** Prepare a corrected statement of financial position at 31 January 2018.

The calculation of the corrected profit for the year should be shown within the statement or as a separate calculation.

You may use the space provided on page 16 for your workings.

Amaira
Corrected Statement of Financial Position at 31 January 2018

| | $ | $ | $ |
|---|---|---|---|
| .................................................................. | ......................... | ......................... | ......................... |
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[15]

You may use this space for workings

**REQUIRED**

**(b)** Prepare Amaira's capital account for the year ended 31 January 2018. Balance the account and bring down the balance on 1 February 2018.

Amaira
Capital account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |
| .......... | ...................................... | ............... | .......... | ...................................... | ............... |

[5]

**(c)** Suggest **two** reasons why Amaira's employees would be interested in Amaira's financial statements.

1 ..........................................................................................................................................

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2 ..........................................................................................................................................

..........................................................................................................................................[2]

**(d)** Suggest **two** additional reasons why the manager of Amaira's business would be interested in Amaira's financial statements.

1 ..........................................................................................................................................

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2 ..........................................................................................................................................

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[Total: 24]

**PLEASE TURN OVER**

5 ABC Limited has a share capital consisting of ordinary shares. The financial year ends on 31 December.

The accountant prepared the income statement for the year ended 31 December 2017 which showed a profit of $21 000.

The accountant started to prepare a statement of changes in equity but was taken ill before it was completed.

**REQUIRED**

**(a)** Complete the following statement of changes in equity for the year ended 31 December 2017.

ABC Limited
Statement of Changes in Equity for the year ended 31 December 2017

| | Ordinary share capital $ | General reserve $ | Retained earnings $ | Total $ |
|---|---|---|---|---|
| On 1 January 2017 | 180 000 | 25 000 | 9 500 | 214 500 |
| Share issue | 20 000 | .............. | .............. | .............. |
| Profit for the year | .............. | .............. | .............. | .............. |
| Final dividend paid for year ended 31 December 2016 | .............. | .............. | .............. | (7 200) |
| Interim dividend for the year ended 31 December 2017 | .............. | .............. | .............. | (6 000) |
| Transfer to general reserve | .............. | 2 000 | .............. | .............. |
| At 31 December 2017 | .............. | .............. | .............. | .............. |

[6]

ABC Limited provided the following information.

| | Year ended 31 December 2016 | Year ended 31 December 2017 |
|---|---|---|
| Percentage of gross profit to revenue (gross profit margin) | 32% | 30% |
| Percentage of profit for the year to revenue (net profit margin) | 12% | 14% |

**REQUIRED**

**(b)** Suggest **two** reasons for the change in the percentage of profit for the year to revenue.

1 ..........................................................................................................................................

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2 ..........................................................................................................................................

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**(c)** State the year in which ABC Limited had better control of the expenses. Give a reason for your answer.

Year .....................................

Reason ..................................................................................................................................

..........................................................................................................................................[2]

One of the directors has made four proposals for increasing the percentage of profit for the year to revenue.

**REQUIRED**

**(d)** Complete the following table by placing a tick (✓) to indicate the effect on the percentage of profit for the year to revenue of **each** proposal.

| proposal | effect on percentage of profit for the year to revenue | | |
|---|---|---|---|
| | increase | decrease | no effect |
| reduce number of employees to reduce the wages bill | | | |
| purchase supplies in bulk to get trade discount | | | |
| purchase supplies on a cash basis only | | | |
| delay payment of rent of premises | | | |

[4]

ABC Limited makes all purchases and sales on credit terms.

Credit customers are allowed a credit period of 30 days and credit suppliers allow a credit period of 24 days.

ABC Limited provided the following information.

| | 2016 | 2017 |
|---|---|---|
| Collection period for trade receivables | 28 days | 38 days |
| Payment period for trade payables | 22 days | 30 days |

**REQUIRED**

**(e)** Comment on the effect on the liquidity of ABC Limited of the change in the collection period for trade receivables and the change in the payment period for trade payables.

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**(f)** Suggest **two** ways in which ABC Limited could reduce the collection period for trade receivables.

1 ......................................................................................................................................

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2 ......................................................................................................................................

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**(g)** Suggest **two** ways in which ABC Limited could reduce the possibility of bad debts.

1 ......................................................................................................................................

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2 ......................................................................................................................................

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**(h)** Suggest **one** disadvantage to the trade payables of the change in the payment period.

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**(i)** Suggest **one** advantage to the trade payables of the change in the payment period.

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ABC Limited's return on capital employed (ROCE) for the year ended 31 December 2017 was lower than that of the previous few years.

**REQUIRED**

**(j)** State what is measured by the return on capital employed (ROCE).

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One of the directors has made three proposals for increasing the return on capital employed (ROCE).

**REQUIRED**

**(k)** Complete the following table by placing a tick (✓) to indicate the effect on the return on capital employed (ROCE) of **each** proposal.

| proposal | effect on return on capital employed (ROCE) | | |
|---|---|---|---|
| | increase | decrease | no effect |
| reduce cost of insuring motor vehicles | | | |
| issue more ordinary shares | | | |
| obtain a short-term interest-free loan from a director | | | |

[3]

[Total: 26]

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