Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

0963224435

ACCOUNTING **0452/22**

Paper 2 **October/November 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 (RCL (GO)) 156839/3

CAMBRIDGE International Examinations

1 Rajinder owns an engineering business. His financial year ends on 31 July.

His cash book for July 2018 was as follows.

Rajinder
Cash Book

Date	Details	Dis.*	Cash	Bank	Date	Details	Dis.*	Cash	Bank
2018		$	$	$	2018		$	$	$
July 1	Balance b/d		113		July 1	Balance b/d			4074
3	W Limited	18		582	2	Petty cash		93	
15	Sale of old machinery		500		7	Ayesha (cheque dishonoured)			133
22	Cash			450	18	Machinery			1420
29	Sales		220	880	22	Bank		450	
					27	AM Limited	8		312

*Dis. stands for discount

REQUIRED

(a) **(i)** State the significance of the balance shown on the credit side of the cash book on 1 July 2018.

....

.... [1]

(ii) State why the entry on 2 July was required.

....

.... [1]

(iii) Calculate the percentage that the discount on 3 July represents.

....

.... [1]

(iv) Suggest **one** possible reason why the cheque from Ayesha was dishonoured.

....

.... [1]

(v) Explain the entries on 22 July.

....

....

....

.... [2]

(vi) State the meaning of the entry on 29 July.

....

....

.... [1]

(b) Calculate the cash and bank balances at the end of July. Name the section of the statement of financial position in which **each** balance would appear.

Cash balance $ ....

Section of statement of financial position ....

Bank balance $ ....

Section of statement of financial position ....[4]

(c) Complete the following accounts in Rajinder's ledger.

Close the accounts on 31 July 2018 by balancing or by making a transfer to an appropriate account.

Some entries have already been made in the accounts during the year.

Rajinder
Sales account

Date	Details	$	Date	Details	$
			2018		
....	....	....	*June 30*	*Total to date*	*13 500*
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

AM Limited account

Date	Details	$	Date	Details	$
			2018		
....	....	....	*July 1*	*Balance b/d*	*250*
....	....	....	14	*Purchases*	*440*
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[5]

(d) Prepare the discount allowed account for the year ended 31 July 2018.

The total discount allowed up to 30 June 2018 was $178.

Close the account on 31 July 2018 by making a transfer to an appropriate account.

Rajinder
Discount allowed account

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[3]

[Total: 19]

2 Adil is a wholesaler. All his sales are made on credit terms. His financial year ends on 31 August.

REQUIRED

(a) State the meaning of **each** of the following terms.

Bad debts

....

....

Bad debts recovered

....

....

Provision for doubtful debts

....

.... [3]

On 31 August 2018 Adil received a cheque for $0.20 in a dollar from Mahinda, a credit customer. The balance of the account was irrecoverable.

REQUIRED

(b) Record this information in the following accounts in Adil's ledger.

Close the accounts on 31 August 2018 by balancing or by making a transfer to an appropriate account.

Some entries have already been made in the accounts during the year.

Adil
Mahinda account

Date	Details	$	Date	Details	$
2018			*2018*		
Feb 1	*Sales*	*600*	*Feb 10*	*Sales returns*	*30*
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

Bad debts account

Date	Details	$	Date	Details	$
2018					
Aug 30	*Total to date*	*710*	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[4]

Adil is proposing to stop selling on credit and to sell on cash terms only.

REQUIRED

(c) **(i)** State **one** possible advantage to Adil of going ahead with this proposal.

....

.... [1]

(ii) State **one** possible disadvantage to Adil of going ahead with this proposal.

....

.... [1]

(d) Suggest **two** ways (apart from stopping selling on credit) in which Adil could reduce the risk of bad debts.

1 ....

....

2 ....

.... [2]

Adil has maintained a provision for doubtful debts for many years. He provided the following information.

	$
Trade receivables on 31 August 2017	44 200
Trade receivables on 31 August 2018 (after writing off Mahinda's account)	42 000

On 31 August 2018 Adil decided to reduce the rate of the provision for doubtful debts from 3% to 2½%.

REQUIRED

(e) Prepare the provision for doubtful debts account for the year ended 31 August 2018. Balance the account and bring down the balance on 1 September 2018.

Adil
Provision for doubtful debts account

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[4]

(f) Explain how Adil is applying the accruals (matching) principle by maintaining a provision for doubtful debts.

....

....

....

.... [2]

(g) Name **two** other accounting principles which Adil is applying maintaining a provision for doubtful debts.

1 ....

2 .... [2]

On 20 September 2018 Adil received a cheque for $250 from Amaya whose account had been written off in 2017.

REQUIRED

(h) State how this was recorded in Adil's books of account.

debit	credit

[2]

(i) State how this transaction would affect the profit for the year ending 31 August 2019.

....[1]

[Total: 22]

PLEASE TURN OVER

3 Paul and Ann are in partnership. Their financial year ends on 30 September.

When they started the business they drew up a partnership agreement which provided for:

Interest on capital at 4% per annum
Interest on drawings at 5%
An annual salary of $7000 for Paul
Interest on any loans from partners at 6% per annum
Sharing of profits and losses equally

On 1 October 2017 the balances on the partners' accounts were as follows:

	Paul	Ann
	$	$
Capital account	50 000	85 000
Current account	1 150 credit	3 125 debit
Loan account	10 000	

The interest on loan is credited to Paul's current account at the end of each financial year.

On 1 April 2018 Paul introduced a motor vehicle, $14 500, into the business. He also deposited an amount into the business bank account so that his total capital was $80 000.

The partners agreed that Paul's salary should be increased by $1000 per annum starting on 1 April 2018.

Drawings during the year ended 30 September 2018 were as follows:

	$
Paul	9 000
Ann	11 000

On 30 September 2018 Ann transferred $5000 from her capital account to her current account.

The profit for the year ended 30 September 2018 after loan interest was $11 350.

REQUIRED

(a) Prepare journal entries to record the following:

1 The introduction of additional capital by Paul on 1 April 2018.

2 The transfer of $5000 from Ann's capital account to her current account on 30 September 2018.

Narratives are **not** required.

Paul and Ann
Journal

Date	Details	Debit $	Credit $
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………
…………	…………………………………………	………………	………………

[5]

(b) Prepare the profit and loss appropriation account for the year ended 30 September 2018.

Paul and Ann
Profit and Loss Appropriation Account for the year ended 30 September 2018

	$	$
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[8]

(c) Prepare the current account of Paul for the year ended 30 September 2018. Balance the account and bring down the balance on 1 October 2018.

Paul
Current account

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[8]

[Total: 21]

4 The financial year of LS Limited ends on 30 June.

The following information is available.

	$
On 1 July 2017	
Issued share capital of ordinary share of $0.50 each	150 000
5% Debentures repayable in 2022	20 000
Long-term bank loan	10 000

The directors of LS Limited are hoping to expand the business and have estimated that $80 000 will be required. They anticipate that the expansion will increase the profits of the company, but that there will be no significant increase until 2020.

The finance director has proposed raising funds from
either an issue of ordinary shares of $0.50 each
or an issue of 6% preference shares of $1 each
or an issue of 5% debentures repayable in 2024.

REQUIRED

(a) Complete the table to indicate how **each** value would change if an issue of debentures was made.

Where the value changes insert the amount in the relevant column.

Where there is no effect, place a tick (✓) in the column headed 'no effect'.

	increase $	decrease $	no effect
total of current assets			
total profit for the year			
total equity			

[3]

(b) State **two** ways in which the existing ordinary shareholders may be affected if an issue of preference shares is made.

1 ....

....

....

2 ....

....

.... [2]

(c) State **two** ways in which the existing ordinary shareholders may be affected if an issue of additional ordinary shares is made.

1 ....

....

2 ....

.... [2]

One of the directors has made the following alternative proposals for raising the necessary funds.

Proposal 1 – use the general reserve

Proposal 2 – request a bank overdraft

REQUIRED

(d) State why **each** of these proposals should **not** be accepted.

Proposal 1

....

....

Proposal 2

....

.... [2]

(e) Suggest **one** method which the directors have not yet considered to raise the funds required for expansion.

.... [1]

[Total: 10]

5 Mariam is a trader. Her financial year ends on 31 July.

She provided the following information.

	$
For the year ended 31 July 2018	
Total sales – credit	192 000
cash	28 000
	220 000
Total purchases – credit	154 500
cash	20 500
	175 000
At 31 July 2018	
Inventory	14 900
Trade receivables	16 200
Cash	100
Trade payables	16 500
Bank overdraft	3 700

REQUIRED

(a) Complete the table on the opposite page to show the ratios for the year ended 31 July 2018.

You may use the space below for your workings.

Workings

Ratio	2018	2017
Current ratio (to **two** decimal places)		1.95 : 1
Quick (acid test) ratio (to **two** decimal places)		1.15 : 1
Trade receivables collection period (rounded up to the next whole day)		27 days
Trade payables payment period (rounded up to the next whole day)		32 days

[8]

(b) Suggest **two** reasons for the change in the current ratio.

1 ....

2 .... [2]

(c) Complete the following table by placing a tick (✓) in the correct column to show how **each** of the following courses of action would affect Mariam's current ratio.

	increase	decrease	no effect
introduce $4000 additional capital in order to pay off the bank overdraft			
sell half the inventory at cost price to a cash purchaser			
convert a $10 000 long-term bank loan into a bank overdraft			
increase the bank overdraft by $16 500 in order to repay the trade payables			

[4]

(d) Explain why the quick (acid test) ratio is more reliable than the current ratio as an indicator of liquidity.

....

....

....

....

....

.... [2]

(e) Comment on the change in the quick (acid test) ratio.

....

....

....

.... [2]

(f) Comment on the change in the trade receivables collection period.

....

....

....

.... [2]

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

....

.... [1]

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

....

.... [1]

[Total: 22]

6 Priti opened a retail food store on 1 October 2017. She did not keep many accounting records.

Priti makes purchases on both cash and credit terms. All sales are made for cash.

The following information is available.

	$
On 1 October 2017	
Capital introduced into the business bank account	30 000
During the year ended 30 September 2018	
Purchase of non-current assets by cheque	19 400
Cheques paid to credit suppliers	33 150
Discount received	850
Returns to credit suppliers	1670
Cash paid into bank from shop sales	48 500
Withdrawals from bank for cash purchases	4 820
Expenses paid	?
On 30 September 2018	
Amount owing to credit suppliers	3180
Expenses accrued	120
Cash at bank	16 040

REQUIRED

(a) Calculate the total purchases for the year ended 30 September 2018.

....

....

....

....

....

....

....

....

....

....

.... [6]

(b) Prepare the bank account for the year ended 30 September 2018. Insert the missing figure which represents the expenses paid during the year.

Priti
Bank account

Date	Details	$	Date	Details	$
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....
....	....	....	....	....	....

[7]

Priti did not value her inventory on 30 September 2018.

All goods are sold at a gross profit margin of 20%.

Non-current assets are to be depreciated at the rate of 10%.

REQUIRED

(c) Prepare the income statement for the year ended 30 September 2018. Show the value of the closing inventory, the gross profit and the profit for the year.

Priti
Income Statement for the year ended 30 September 2018

	$	$
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....
....	....	....

[11]

(d) State the difference between margin and mark-up.

....

....

....

.... [2]

[Total: 26]

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