Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

ACCOUNTING **0452/21**

Paper 2 **May/June 2017**

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 **23** printed pages and **1** blank page.

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1 Amjad is a furniture wholesaler. He maintains a three column cash book.

On 1 March the bank column of his cash book showed a debit balance brought down of $2750. On the same day the bank statement showed a credit balance of $2750.

REQUIRED

(a) State why the bank statement balance is on the opposite side to that shown in the cash book.

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.....[2]

The following transactions took place in March 2017.

March 6 Paid $950 by cheque. This included $790 for a new computer system, and the balance was for repairs to existing office equipment

13 Received a cheque from XY Limited for $196 to settle its account after deducting 2% cash discount

21 Paid Furniture Store a cheque for $351 in full settlement of the balance owing of $360

29 Made cash sales, $2148

30 Paid cash into bank, $2000

View solution

Amjad received his bank statement for March 2017.

The following items appeared on the bank statement but had not been recorded in his accounting records.

	$
Bank charges	29
Insurance paid directly by the bank	50
A credit customer, Idris, had paid his account by credit transfer	474

The bank had not yet recorded the transactions which took place on 21 March and 30 March.

REQUIRED

(b) Complete Amjad's cash book on the page opposite.

Balance the cash book and bring down the balances on 1 April 2017. [13]

View solution

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Amjad
Cash Book

Date	Details	Discount allowed	Cash	Bank	Date	Details	Discount received	Cash	Bank
2017		$	$	$	2017		$	$	$
Mar 1	*Balances b/d*	.....	*38*	*2750*	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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(c) Prepare a bank reconciliation statement for Amjad at 31 March 2017 to determine the balance on the bank statement.

View solution

Amjad
Bank Reconciliation Statement at 31 March 2017

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.....[6]

Amjad wishes to compare his financial statements with those of another furniture wholesaler. He has been told that financial statements have limitations and will not reveal everything about the other business.

REQUIRED

(d) Explain why Amjad should consider the following when he is looking at the financial statements of the other business.

View solution

(i) Historical cost

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.....[2]

View solution

(ii) Non-financial aspects

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.....[2]

[Total: 25]

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Question 2 is on the next page.

2 Harum is a trader. All goods are bought and sold on credit terms.

On 1 March 2017 Kalgi, a credit customer, owed Harum $520.

The following took place during March 2017.

March 4 Harum sold goods on credit to Kalgi, list price $280, less 20% trade discount

10 Kalgi paid the balance due on 1 March by cheque

12 Kalgi returned goods, list price $120, purchased on 4 March

18 The bank returned Kalgi's cheque received on 10 March because of insufficient funds in his account.

28 Kalgi paid $600 in cash

30 Harum wrote off the balance on Kalgi's account

REQUIRED

(a) Name the source document which Harum would use to record the following:

View solution

	Document
March 4 Sold goods on credit to Kalgi	.....
12 Kalgi returned goods	.....

[2]

(b) Name the book of prime (original) entry in which Harum would record the following:

View solution

	Book of prime (original) entry
March 18 The bank returned Kalgi's cheque	.....
30 The balance of Kalgi's account was written off	.....

[2]

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(c) Write up the account of Kalgi as it would appear in the ledger of Harum for the month of March 2017.

View solution

Harum
Kalgi account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[6]

(d) Suggest **two** ways in which Harum could reduce the possibility of bad debts.

View solution

1 .....

2 .....[2]

The totals of Harum's trial balance prepared on 31 March 2017 did not agree. Harum recorded the difference in a suspense account.

On checking the accounting records various errors were discovered.

REQUIRED

(e) Complete the following table to show the entries required to **correct each** error. The first one has been completed as an example.

View solution

Error	Entry required to correct the error			
	Debit		Credit	
	Account	$	Account	$
Goods returned, $310, to Ali, a credit supplier, had been entered into the account of Alam.	*Ali*	*310*	*Alam*	*310*
Wages paid in cash, $1200, had been correctly entered in the cash book but posted to the wages account as $2100.	.....	.....	.....	.....
The total of the general expenses column in the petty cash book, $48, had not been posted to the general expenses account.	.....	.....	.....	.....
The total of the discount received column in the cash book, $114, had been debited to the discount allowed account.	.....	.....	.....	.....
	.....	.....	.....	.....

[7]

Harum knows that he should consider four objectives when selecting accounting policies.

REQUIRED

(f) Name **four** objectives Harum should apply. The first one has been completed as an example.

View solution

1 *Relevance*

2 .....

3 .....

4 ..... [3]

[Total: 22]

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Question 3 is on the next page.

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3 Meena and Rafah are in partnership. Their financial year ends on 30 April.

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

Interest on capital at 3% per annum
Interest on drawings at 4% per annum
An annual salary of $6000 for Meena
Sharing of residual profits and losses in the ratio 2 : 1

On 1 May 2016 the balances on the partners' capital accounts were as follows:

	Meena	Rafah
	$	$
Capital account	40 000	20 000

On 1 November 2016 Rafah introduced a further $10 000 into the business as capital.

The partners agreed that Meena's salary should be increased by $1000 per annum starting on 1 November 2016.

Drawings and interest on drawings during the year ended 30 April 2017 were as follows:

	Meena	Rafah
	$	$
Drawings	7300	5100
Interest on drawings	292	204

The profit for the year ended 30 April 2017 was $7534.

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REQUIRED

(a) Prepare the profit and loss appropriation account for the year ended 30 April 2017.

View solution

Meena and Rafah
Profit and Loss Appropriation Account for the year ended 30 April 2017

	$	$
.....	.....	.....
.....	.....	.....
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[8]

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(b) Prepare the current account of Meena for the year ended 30 April 2017. Balance the account and bring down the balance on 1 May 2017.

View solution

Meena
Current account

Date	Details	$	Date	Details	$
2016					
May 1	*Balance b/d*	*1490*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[5]

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The partners provided the following information.

	At 30 April 2016	At 30 April 2017
Current ratio	1.85 : 1	1.68 : 1
Quick (acid test) ratio	1.01 : 1	0.78 : 1

	$
Inventory	19400
Trade receivables	16900
Trade payables	17450
Bank overdraft	4100

REQUIRED

(c) Explain why the partners calculated the quick (acid test) ratio as well as the current ratio.

View solution

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.....[2]

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

View solution

1 .....

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2 .....

.....[2]

The partners later discovered that no entry had been made for a cheque received from a credit customer for $1800.

REQUIRED

(e) Calculate the current ratio after this transaction had been recorded in the accounting records.

The calculation should be correct to **two** decimal places.

View solution

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.....[2]

(f) Suggest **two** possible problems the partners may encounter if the working capital is inadequate**.**

1 .....

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2 .....

.....[2]

(g) Suggest **two** ways in which the partners could increase the working capital.

View solution

1 .....

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2 .....

.....[2]

[Total: 23]

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4 The financial year of Msamati Manufacturing ends on 31 January.

The following is the summarised manufacturing account for the year ended 31 January 2017.

	$
Prime cost	505 650
Factory overheads	176 390
	682 040
Change in work in progress	(12 090)
Cost of production	669 950

REQUIRED

(a) Explain the meaning of the term 'prime cost'.

View solution

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.....[2]

(b) (i) Explain the meaning of the term 'factory overheads'.

View solution

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.....[2]

(ii) Suggest **two** items which may be included in the factory overheads.

View solution

1 .....

2 .....[2]

(c) (i) State the meaning of the term 'work in progress'.

View solution

.....

.....[1]

(ii) State whether the closing work in progress was greater or smaller than the opening work in progress.

..... [1]

View solution

Msamati Manufacturing provided the following information for the year ended 31 January 2017.

	$
Revenue	816 370
Purchases of finished goods	17 200
Commission received	2 700
Administration expenses	38 160
Selling expenses	28 270
Inventory of finished goods 1 February 2016	56 120
Office equipment at cost	32 000
Delivery vehicles at cost	68 000
Provision for depreciation	
Office equipment	14 400
Delivery vehicles	17 000
Loan from A1 Loans received 1 April 2016	15 000

At 31 January 2017

Inventory of finished goods	61 340
Commission receivable outstanding	130
Loan interest at 5% per annum is outstanding	

During the year ended 31 January 2017 the owner of the business took finished goods costing $1620 for his own use.

Depreciation is charged as follows:

Office equipment at 15% per annum using the straight line (equal instalment) method

Delivery vehicles at 25% per annum using the reducing (diminishing) balance method.

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REQUIRED

(d) Prepare the income statement for the year ended 31 January 2017.

View solution

Msamati Manufacturing
Income Statement for the year ended 31 January 2017

	$	$	$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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[10]

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(e) Explain how the accruals (matching) principle has been applied in the preparation of the income statement. Illustrate your answer by reference to **one** of the items in your answer to **4(d)**.

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.....

.....[2]

The owner of Msamati Manufacturing is disappointed with the results for the year ended 31 January 2017. He is looking for ways to increase the gross profit and profit for the year.

View solution

REQUIRED

(f) Discuss the possible effects on the gross profit of **each** of the following proposals:

View solution

(i) increase the selling price of the finished goods

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.....

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.....[2]

(ii) reduce the wages of the factory employees

View solution

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.....[2]

(g) Suggest **two** ways in which the profit for the year could be increased.

View solution

1 .....

2 .....[2]

[Total: 26]

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Question 5 is on the next page.

5 Bradley is a wholesaler. His financial year ends on 31 December.

On 1 January 2015 Bradley had a delivery vehicle A which had cost $35 000 and had been depreciated by $13 125.

On 1 October 2015 he purchased delivery vehicle B for $40 000 by cheque.

On 1 July 2016 he purchased delivery vehicle C on credit from XZ Motors for $28 000.

All the delivery vehicles are depreciated by 25% per annum on cost calculated from the date of purchase.

REQUIRED

(a) Prepare the following accounts for **each** of the years ended 31 December 2015 and 31 December 2016.

Balance the accounts and bring down the balances on 1 January 2016 and 1 January 2017.

View solution

Bradley
Delivery vehicles account

Date	Details	$	Date	Details	$
2015 Jan 1	*Balance A b/d*	*35 000*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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Provision for depreciation of delivery vehicles account

Date	Details	$	Date	Details	$
.....	.....	.....	*2015 Jan 1*	*Balance A b/d*	*13125*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[12]

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On 1 January 2017 it was decided that delivery vehicle C (purchased on 1 July 2016) was unsuitable. The delivery vehicle was sold on credit to DDE Transport for $25 500.

REQUIRED

(b) Prepare journal entries on 1 January 2017 to record the disposal of delivery vehicle C. Narratives are **not** required.

View solution

Bradley
Journal

	Debit $	Credit $
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
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[6]

Bradley makes all purchases on credit terms and sells on both cash and credit terms.

If credit customers pay their accounts within 30 days they are allowed a cash discount. If the accounts of credit suppliers are paid within 40 days Bradley is entitled to a cash discount.

The following information is available.

	31 December 2015	31 December 2016
Payment period for trade payables	41 days	38 days
Collection period for trade receivables	34 days	28 days

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REQUIRED

(c) Suggest **two** reasons for the change in the trade receivables collection period.

View solution

1 .....

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2 .....

.....[2]

(d) State **two** effects of the change in the trade payables payment period.

View solution

1 .....

.....

2 .....

.....[2]

The credit suppliers are proposing to reduce the credit period to 30 days.

REQUIRED

(e) Suggest **two** ways in which this may affect Bradley.

View solution

1 .....

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2 .....

.....[2]

[Total: 24]

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