Cambridge IGCSE

Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

ACCOUNTING **0452/23**

Paper 2 **October/November 2016**

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

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CAMBRIDGE International Examinations

1 Jolindi is a trader who maintains a full set of accounting records including a three column cash book.

Her transactions for September 2016 included the following.

September 5 Cash sales, $515, of which $400 was paid directly into the bank

10 A cheque received in August for $190 from C Barnes was dishonoured

15 Received a cheque from H Magagula to settle her debt of $480, less 2½% cash discount

21 Paid $324 by cheque, for new office equipment, $280, and repairs to existing office equipment, $44

28 Paid all the cash into the bank except $50

REQUIRED

(a) Complete Jolindi's cash book on the page opposite.

View solution

Balance the cash book and bring down the balances on 1 October 2016.

[10]

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Jolindi
Cash Book

Date 2016	Details	Discount allowed $	Cash $	Bank $	Date 2016	Details	Discount received $	Cash $	Bank $
Sept 1	*Balance b/d*	.....	*193*	.....	*Sept 1*	*Balance b/d*	.....	.....	*1560*
.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
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(b) State why it is **not** possible for Jolindi to have a credit balance in the cash column of her cash book.

.....

..... [1]

Jolindi decided to compare the bank column of her cash book with her bank statement and to prepare a bank reconciliation statement.

View solution

REQUIRED

View solution

(c) State **two** reasons for preparing a bank reconciliation statement.

1 .....

.....

2 .....

..... [2]

(d) Suggest **two** items which may appear in the cash book but not on the bank statement.

View solution

1 .....

.....

2 .....

..... [2]

Jolindi believes that her working capital could be improved. She is considering five courses of action.

REQUIRED

(e) State whether **each** of the following courses of action would increase, decrease or have no effect on the working capital. Give a reason for your answer in each case.

View solution

The first one has been completed as an example.

	Effect on working capital	Reason
Reduce credit sales and increase cash sales	*No effect*	*Trade receivables decrease and cash increases so total current assets is unchanged. No effect on current liabilities.*
Create a provision for doubtful debts		
Take a long-term bank loan		
Take a short-term bank loan		
Pay credit suppliers early to earn cash discount		

[8]

[Total: 23]

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2 The financial year of Crossroads Limited ends on 31 October.

The partially completed statement of changes in equity for the year ended 31 October 2016 was as follows:

	Ordinary share capital $	General reserve $	Retained earnings $	Total $
On 1 November 2015	350 000	16 000	46 000	412 000
Share issue	50 000			50 000
Profit for the year			72 000	72 000
Final dividend paid (for year ended 31 October 2015)			(17 500)	(17 500)
Interim dividend paid (for year ended 31 October 2016)			(10 500)	(10 500)
Transfer to general reserve		15 000	(15 000)	
On 31 October 2016				

The following additional information was also available on 31 October 2016.

	$
Premises at cost	363 000
Machinery and equipment at cost	185 000
Fixtures and fittings at cost	70 000
Provision for depreciation – machinery and equipment	83 250
fixtures and fittings	24 073
Inventory	30 853
Trade receivables	28 000
Trade payables	31 600
Rates paid in advance	1 340
Debenture interest accrued	800
Wages accrued	320
Bank	11 400 credit
Provision for doubtful debts	750
4% debentures (repayable 2026)	20 000

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REQUIRED

(a) Prepare the statement of financial position on 31 October 2016.


View solution

Crossroads Limited
Statement of Financial Position at 31 October 2016

	$	$	$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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[15]

View solution

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

Issued share capital

.....

.....

Called-up share capital

.....

.....

Paid-up share capital

.....

..... [3]

[Total: 18]

3 The financial year of Kristy ends on 31 October. She maintains a provision for doubtful debts. The following account appeared in her ledger.

Provision for doubtful debts account

Date	Details	$	Date	Details	$
2016			2015		
Oct 31	Income statement	75	Nov 1	Balance b/d	525
	Balance c/d	450			
		525			525

REQUIRED

(a) Explain the following entries in the above account. Name the account in which the double entry would be made for **each** item. State whether the account would be debited or credited.



1 November 2015 Balance b/d

Explanation .....

.....

.....

Double entry .....

31 October 2016 Income statement

Explanation .....

.....

.....

Double entry .....

31 October 2016 Balance c/d

Explanation .....

.....

.....

Double entry ..... [6]

(b) State the entry for provision for doubtful debts that would appear in the statement of financial position on 31 October 2016.

.....

..... [2]

On 31 October 2016 the following transactions took place.

1 Kristy transferred her personal computer system to the business. When purchased it cost $1200 and was now valued at $740.

2 An invoice was received from Comp4u for $266, consisting of $40 for repairs to the computer system and $226 for a new printer.

View solution

REQUIRED

(c) Prepare journal entries to record the transactions which took place on 31 October 2016.

View solution

Narratives **are** required.

Kristy
Journal

		Debit $	Credit $
1	.....	.....	.....
	.....	.....	.....
	.....	.....	.....
	.....	.....	.....
2	.....	.....	.....
	.....	.....	.....
	.....	.....	.....
	.....	.....	.....

[7]

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During the year ended 31 October 2016 the payments made by Kristy included both capital and revenue expenditure.

REQUIRED

(d) Complete the following table by placing a tick (✓) in the correct column to show whether **each** payment is capital expenditure or revenue expenditure.

View solution

	Capital expenditure	Revenue expenditure
Wages paid to employees to build new office block		
Insurance premium for new office block		
Cost of painting new office block		
Cost of moving furniture into new office block		

[4]

On 31 October 2016 it was found that two receipts had been incorrectly classified.

REQUIRED

(e) Complete the following table by placing a tick (✓) in the correct column to indicate the **effect** of **each** error on the profit for the year.

View solution

	Effect of error on profit	
	overstated	understated
Proceeds of sale of old fixtures (at book value) included in income statement		
Interest received on loan to employee recorded as part repayment of loan		

[2]

[Total: 21]

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4 Hamza is a trader who does not maintain a full set of accounting records. His financial year ends on 31 August.

In December 2015 it was discovered that some errors had been made in the financial statements for the year ended 31 August 2015.

REQUIRED

(a) Complete the following table to indicate the effect of **correcting each error** on the profit for the year.

View solution

The first one has been completed as an example.

	Effect on profit of correcting error	
	increase $	decrease $
Purchases returns, $2000, had not been recorded.	2000	
Wages owing at 31 August 2015, $450, were not recorded.		
Discount allowed, $115, had been recorded as discount received.		
The provision for doubtful debts, $950, should have been adjusted to 2½% of trade receivables, who owed $36 000.		
Inventory at 1 September 2014 had been valued at net realisable value, $16 700, instead of at cost, $15 300.		

[8]

Hamza had no record of the purchases for the year ended 31 August 2016, but the following information was available.

	$
Inventory 1 September 2015	14 100
Inventory 31 August 2016	13 700
Revenue	385 500
Returns from customers	7 500
Carriage inwards	2 100
General expenses	3 910
Wages and salaries	21 500
Rates and insurance	5 320
Depreciation of non-current assets	5 660
Mark-up on cost	20%

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REQUIRED

(b) Prepare the income statement for the year ended 31 August 2016 showing the purchases for the year.

View solution

Hamza
Income Statement for the year ended 31 August 2016

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

[14]

[Total: 22]

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5 Tom's financial year ends on 31 July. He depreciates his non-current assets using the reducing (diminishing) balance method.

REQUIRED

(a) Name **one** other method of depreciation which Tom could apply.

View solution

..... [1]

(b) Explain how providing for depreciation of non-current assets is an application of the principle of accruals (matching).

.....

.....

.....

..... [2]

(c) Name **one** other accounting principle which is applied when providing for depreciation of non-current assets.

..... [1]

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

On 1 August 2014 he owned one machine (Machine A) which had cost $3000, and which had been depreciated by $600.

On 1 January 2015 Tom purchased another machine (Machine B) for $3500, paying by cheque.

REQUIRED

View solution

(d) (i) Calculate the depreciation of Machine A for **each** of the years ended 31 July 2015 and 31 July 2016.

.....

.....

.....

.....

.....

.....

..... [2]

View solution

(ii) Calculate the depreciation of Machine B for **each** of the years ended 31 July 2015 and 31 July 2016.

.....

.....

.....

.....

.....

.....

..... [2]

(e) Prepare the following accounts in the ledger of Tom.

View solution

(i) Machinery account

Balance the account on 31 July 2015 and bring down the balance on 1 August 2015.

Tom
Machinery account

Date	Details	$	Date	Details	$
2014					
Aug 1	*Balance (A) b/d*	*3000*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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(ii) Provision for depreciation of machinery account

Balance the account at the end of **each** year and bring down the balance on 1 August 2015 and 1 August 2016.

View solution

Tom
Provision for depreciation of machinery account

Date	Details	$	Date	Details	$
			2014		
.....	.....	.....	*Aug 1*	*Balance b/d*	*600*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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.....	.....	.....	.....	.....	.....

[7]

On 1 October 2016 Tom sold Machine A for $1640.

REQUIRED

(f) Calculate the profit or loss on the disposal of Machine A.

View solution

.....

.....

.....

..... [4]

[Total: 19]

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6 Joey is a trader. His financial year ends on 30 September. He provided the following information for the year ended 30 September 2016.

	$
Revenue	290 000
Cost of sales	224 025
Expenses	38 860

Joey obtained the trading results of DT Traders, another business in the same town, and decided to compare the profitability of the two businesses.

REQUIRED

View solution

(a) Complete the following table to show the ratios for Joey's business.

The calculations should be to **two** decimal places.

Ratio	Joey	DT Traders
Percentage of gross profit to revenue (gross profit margin)	.....%	18.50%
Percentage of profit for the year to revenue (net profit margin)	.....%	10.25%

You may use the space below for your workings. [4]

Workings

(b) Suggest **two** reasons for the difference in the percentage of gross profit to revenue (gross profit margin).

1 .....

.....

2 .....

..... [2]

(c) Suggest **two** reasons for the difference in the percentage of profit for the year to revenue (net profit margin).

1 .....

.....

2 .....

..... [2]

(d) State which business had better control on its expenses.

..... [1]

Joey is hoping to increase the percentage of profit for the year to revenue (net profit margin) in the following financial year. He is considering four courses of action.

View solution

REQUIRED

(e) Complete the following table by placing a tick (✓) in the correct column to show how **each** course of action would affect Joey's percentage of profit for the year to revenue (net profit margin).

View solution

	increase	decrease	no effect
Buy in bulk from suppliers to obtain trade discount			
Offer cash discount to encourage credit customers to pay early			
Pay employees monthly instead of weekly			
Write off damaged inventory at the year end			

[4]

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(f) State how **each** of the following may be regarded as a limitation of financial statements.

View solution

Historical cost

.....

.....

.....

.....

Non-financial factors

.....

.....

.....

..... [4]

[Total: 17]

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