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 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 **20** printed pages.

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1 Zodwa is a trader. She maintains a full set of accounting records. Her financial year ends on 31 July.

She provided the following information on 31 July 2017.

1 No entry has been made for $720 cash received from Brian, a credit customer. The balance of his account is irrecoverable and should be written off.

2 A cheque for $118 was received from AL Stores whose account was written off in 2015.

3 Rent prepaid amounted to $400. One quarter of the rent for the year relates to Zodwa's flat above the business premises.

4 Commission receivable outstanding amounted to $150.

5 The fixtures originally cost $40 000 and are to be depreciated by 15% per annum using the reducing (diminishing) balance method.

REQUIRED

View solution

(a) Record this information in the following accounts of Zodwa's ledger at 31 July 2017.

Close the accounts by balancing or by making a transfer to an appropriate account.

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

Brian account

Date	Details	$	Date	Details	$
2016					
Aug 1	*Balance b/d*	*1000*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Bad debts account

Date	Details	$	Date	Details	$
2017					
July 31	*Total to date*	*990*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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Bad debts recovered account

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

Rent account

Date	Details	$	Date	Details	$
2017					
July 31	*Total paid*	*5200*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Drawings account

Date	Details	$	Date	Details	$
2017					
July 31	*Total to date*	*9650*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

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Commission receivable account

Date	Details	$	Date	Details	$
			2017		
.....	.....	.....	*July 31*	*Total to date*	*890*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Provision for depreciation of fixtures account

Date	Details	$	Date	Details	$
			2016		
.....	.....	.....	*Aug 1*	*Balance b/d*	*11100*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

[15]

On 31 July 2017 Zodwa decided to create a provision for doubtful debts.

REQUIRED

(b) Explain the meaning of the term provision for doubtful debts.

View solution

.....

.....

..... [2]

(c) Suggest **one** way in which the amount of a provision for doubtful debts may be determined.

.....

..... [1]

View solution

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(d) State the double entry required to create a provision for doubtful debts.

View solution

debit	credit

[2]

(e) State how Zodwa would be applying the principle of prudence if she maintained a provision for doubtful debts.

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.....

.....

..... [2]

(f) State how Zodwa would be applying the principle of accruals (matching) if she maintained a provision for doubtful debts.

.....

.....

.....

..... [2]

(g) Suggest **two** ways in which Zodwa could reduce the amount of bad debts.

View solution

1 .....

.....

2 .....

..... [2]

[Total: 26]

2 Mahendra's financial year ends on 31 August. He buys and sells on both cash and credit terms and maintains a full set of accounting records.

Mahendra prepares control accounts at the end of each month.

REQUIRED

(a) Complete the following table. Use a tick (✓) to show where **each** of the following items would appear in Mahendra's sales ledger control account. If the item does **not** appear place a tick in the "no entry" column.

View solution

	debit	credit	no entry
opening balance owed by credit customers			
credit sales			
cash sales			
provision for doubtful debts			
bad debts written off			
cash discount allowed to credit customers			
trade discount allowed to credit customers			
contra between sales and purchases ledgers			
cash received from credit customers			

[9]

(b) Name the book of prime (original) entry which Mahendra would use to obtain the following information when preparing his purchases ledger control account.

View solution

	book of prime (original) entry
returns to credit suppliers	
discount received	
interest charged by credit supplier	
contra entry to sales ledger control account	

[4]

(c) **(i)** State the meaning of a contra entry in connection with control accounts.

View solution

.....

..... [1]

(ii) State why such an entry may be necessary.

View solution

.....

..... [1]

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(d) Suggest **two** reasons why it is possible to have a debit balance on a purchases ledger control account.

1 .....

.....

2 .....

..... [2]

On 31 August 2017 Mahendra's trade receivables amounted to $20 520. He allows his credit customers 30 days credit.

The sales for the year ended 31 August 2017 were $229 000, of which $42 300 represented cash sales.

View solution

View solution

REQUIRED

(e) (i) State the formula for the calculation of the trade receivables collection period.

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..... [1]

(ii) Calculate the trade receivables collection period. Round up your answer to the next whole day.

.....

.....

.....

..... [2]

(f) Suggest **two** ways in which Mahendra could improve the trade receivables collection period.

1 .....

.....

2 .....

..... [2]

View solution

Mahendra is allowed 21 days credit by his credit suppliers. His trade payables payment period was calculated at 20 days at 31 August 2016 and 30 days at 31 August 2017.

REQUIRED

(g) State the formula for the calculation of the trade payables payment period.

View solution

.....

..... [1]

(h) Comment on the possible reaction of Mahendra's credit suppliers to the change in the ratio.

.....

.....

.....

..... [2]

[Total: 25]

View solution

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Question 3 is on the next page.

3 The financial year of the AS Sports Club ends on 30 September.

In addition to providing sporting facilities, the club also sells sportswear to members. No inventory is held as all goods are bought and sold to order, on a cash basis.

The treasurer provided the following information.

At 1 October 2016

	$
Equipment at cost	22000
Provision for depreciation of equipment	4400
Subscriptions owing by members	600
Cash at bank	610
Insurance prepaid	60
Bank loan (repayable 2020)	7000
Accumulated fund	?

The receipts and payments account for the year ended 30 September 2017 was as follows.

Receipts	$	Payments	$
Balance 1 October 2016	610	Equipment	8000
Sale of sportswear	3510	Purchase of sportswear	2410
Subscriptions	12540	Rates and insurance	1500
Receipts from open day	4180	Expenses of open day	5250
Balance 30 September 2017	760	Rent of sports ground	1800
		General expenses	2640
	21600		21600

At 30 September 2017

1 Subscriptions owing by members amounted to $240 and subscriptions prepaid by members amounted to $180.

2 Loan interest at 5% per annum was outstanding.

3 The equipment is depreciated at 20% per annum based on the cost of equipment held at the end of each financial year.

REQUIRED

(a) Calculate the subscriptions for the year ended 30 September 2017.

View solution

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.....

..... [5]

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(b) Prepare the income and expenditure account for the year ended 30 September 2017.

View solution

AS Sports Club
Income and Expenditure Account for the year ended 30 September 2017

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

[9]

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(c) Prepare the statement of financial position at 30 September 2017.

View solution

AS Sports Club
Statement of Financial Position at 30 September 2017

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

[9]

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(d) Explain why the outstanding loan interest should **not** be credited to the loan account.

.....

.....

.....

..... [2]

[Total: 25]

View solution

4 Hanif's financial year ends on 31 July. He provided the following information on 31 July 2017.

	$
Inventory	87 500
Trade payables	81 500
Trade receivables	56 200
Petty cash	100
Bank overdraft	17 100

REQUIRED

(a) Calculate the current ratio. The calculation should be correct to **two** decimal places.

View solution

.....

.....

.....

..... [2]

(b) Comment on your answer to **(a)**.

View solution

.....

.....

.....

..... [2]

(c) Calculate the quick ratio. The calculation should be correct to **two** decimal places.

View solution

.....

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.....

..... [2]

(d) Suggest **two** reasons why the quick ratio is lower than it was at the end of the previous financial year.

1 .....

.....

2 .....

..... [2]

View solution

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(e) Suggest **two** problems Hanif may encounter if his working capital is inadequate.

View solution

1 .....

.....

2 .....

..... [2]

(f) Complete the table by placing a tick (✓) in the correct column to show how **each** of the following transactions would affect the current ratio and the quick ratio.

The first one has been completed as an example.

View solution

	current ratio			quick ratio		
	increase	decrease	no effect	increase	decrease	no effect
introduce $20 000 additional capital	✓			✓		
obtain short-term bank loan $10 000						
sell half the inventory at cost price						

[4]

Hanif provided the following information for the year ended 31 July 2017.

	$
Revenue	999 750
Cost of sales	765 990

Inventory at 31 July 2017 was $15 500 more than the inventory at 1 August 2016.

REQUIRED

(g) State the formula for the calculation of the rate of inventory turnover (in times).

View solution

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..... [1]

(h) Calculate the rate of inventory turnover (in times). The calculation should be correct to **two** decimal places.

.....

.....

.....

..... [2]

(i) Suggest **two** reasons why the rate of inventory turnover is lower than it was in the previous year.

1 .....

.....

2 .....

..... [2]

[Total: 19]

View solution

Question 5 is on the next page.

5 The financial year of CP Limited ends on 30 September.

The following information is available.

On 1 October 2016	$
Ordinary shares of $1 each	500 000
General reserve	11 000
Retained earnings	14 000
3% Debentures (repayable 2031)	75 000

REQUIRED

(a) Calculate the return on capital employed (ROCE) at 1 October 2016. Use a profit of $43 000. The calculation should be correct to **two** decimal places.

.....

.....

..... [3]

On 2 October 2016 an additional 100 000 ordinary shares of $1 were issued. These shares qualified for dividends relating to the financial year ended 30 September 2017.

The following dividends were paid.

2016		$
December 31	Payment of final ordinary share dividend for the year ended 30 September 2016	25 000
2017		
June 30	Payment of interim ordinary share dividend for the year ended 30 September 2017	15 000

The profit for the year ended 30 September 2017 before debenture interest was $71 000.

On 30 September 2017 a transfer was made of $5000 to general reserve. On that date a final ordinary share dividend for the year ended 30 September 2017 of $30 000 was proposed.

View solution

REQUIRED

(b) Calculate the percentage (%) final ordinary share dividend for the year ended 30 September 2016.

.....

.....

..... [1]

View solution

(c) Calculate the percentage (%) total ordinary share dividend for the year ended 30 September 2017.

.....

.....

.....

..... [3]

(d) Calculate the profit for the year ended 30 September 2017 **after** debenture interest.

View solution

.....

..... [2]

(e) Prepare the statement of changes in equity for the year ended 30 September 2017.

View solution

CP Limited
Statement of Changes in Equity for the year ended 30 September 2017

	Ordinary share capital $	General reserve $	Retained earnings $	Total $
On 1 October 2016	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
On 30 September 2017	.....	.....	.....	.....

[7]

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CP Limited wants to expand and requires $300 000. It is considering raising the funds from either issuing additional 3% debentures or issuing 4% preference shares.

REQUIRED

(f) State **two** features of debentures.

View solution

1 .....

.....

2 .....

..... [2]

(g) State **two** features of preference shares.

View solution

1 .....

.....

2 .....

..... [2]

(h) Complete the following table to indicate the effect of issuing debentures.
Where there is no effect, place a tick (✓) in the column headed "no effect".

View solution

The first item has been completed as an example.

	increase $	decrease $	no effect
effect on current assets	*300 000*		
effect on non-current liabilities			
effect on profit for the year			
effect on profit available for ordinary shareholders			
effect on equity			

[5]

[Total: 25]

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