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**ACCOUNTING** **0452/13**

Paper 1 **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 **20** printed pages.

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There are 10 parts to Question 1.

For **each** of the parts **(a)** to **(j)** below there are four possible answers, **A**, **B**, **C** and **D**. Choose the **one** you consider correct and place a tick (✓) in the box to indicate the correct answer.

**1** **(a)** Which task would an accountant perform?

View solution

**A** drawing up a trial balance ☐

**B** entering transactions in the ledger ☐

**C** preparing financial statements ☐

**D** writing up the cash book ☐ [1]

**(b)** Amina returned goods to Nadia.

View solution

Which document did Amina issue?

**A** credit note ☐

**B** debit note ☐

**C** invoice ☐

**D** statement of account ☐ [1]

**(c)** Arissa purchased a motor vehicle costing $23 000 on 1 August 2016. She decided to depreciate the motor vehicle using the straight line (equal instalment) method at 20% per annum.

Depreciation on the motor vehicle of $4600 was charged to the income statement for the year ended 31 July 2017.

How much was charged to the income statement for the year ended 31 July 2018 for depreciation on the motor vehicle?

View solution

**A** $3680 ☐

**B** $4600 ☐

**C** $8280 ☐

**D** $9200 ☐ [1]

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**(d)** A trader provided the following information on 1 October 2018.

View solution

| | $ |
|---|---|
| Non-current assets | 121 000 |
| Inventory | 35 000 |
| Bank overdraft | 9 000 |
| Trade receivables | 29 000 |
| Trade payables | 25 000 |
| Loan repayable 30 September 2020 | 70 000 |

How much was the capital employed?

**A** $30 000 ☐

**B** $81 000 ☐

**C** $151 000 ☐

**D** $185 000 ☐ [1]

**(e)** Which is an intangible asset?

View solution

**A** goodwill ☐

**B** inventory ☐

**C** office fixtures ☐

**D** trade receivables ☐ [1]

**(f)** Mahendra designs computer systems. He provided the following information.

View solution

| | $ |
|---|---|
| Fees prepaid by clients at the start of the year | 2 120 |
| Fees received from clients during the year | 42 150 |
| Fees owing by clients at the end of the year | 2 840 |

How much would be entered for fees in the income statement?

**A** $37 190 ☐

**B** $41 430 ☐

**C** $42 870 ☐

**D** $47 110 ☐ [1]

**(g)** Amy and John are in partnership. Amy is entitled to an annual partnership salary of $9000. Profits and losses are shared 2:1. The profit for the year ended 31 August 2018 was $14 700.

On 1 September 2017 Amy's current account had a debit balance of $2100.

What was the credit balance on Amy's current account on 1 September 2018?

**A** $10 700 ☐

**B** $14 900 ☐

**C** $16 700 ☐

**D** $20 900 ☐ [1]

**(h)** A sports club purchased sports equipment.

Where will this be entered in the financial statements at the year end?

| | receipts and payments account | income and expenditure account | statement of financial position | |
|---|---|---|---|---|
| **A** | ✓ | ✓ | ✓ | ☐ |
| **B** | ✓ | ✓ | | ☐ |
| **C** | | ✓ | ✓ | ☐ |
| **D** | ✓ | | ✓ | ☐ |

[1]

**(i)** How is cost of production calculated?

**A** direct material + direct labour ☐

**B** direct material + direct labour + factory overheads ☐

**C** direct material + direct labour + factory overheads + increase in work in progress ☐

**D** direct material + direct labour + factory overheads – increase in work in progress ☐ [1]

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**(j)** A business provided the following information.

View solution

| | year 1 | year 2 |
|---|---|---|
| percentage of gross profit to revenue | 30% | 25% |
| percentage of profit for the year to revenue | 12% | 8% |

The revenue was the same in both years.

Which statements are correct?

1 Cost of sales was higher in year 2.

2 Cost of sales was lower in year 2.

3 Expenses were higher in year 2.

4 Expenses were lower in year 2.

**A** 1 and 3 ☐

**B** 1 and 4 ☐

**C** 2 and 3 ☐

**D** 2 and 4 ☐ [1]

[Total: 10]

**2** **(a)** State the meaning of the term 'owner's equity'.

.....

.....[1]

**(b)** Complete the following table stating the double entry necessary to record **each** transaction in the ledger of Evie, who sells computers and computer accessories.

View solution

| transaction | account to be debited | account to be credited |
|---|---|---|
| obtained loan from bank | | |
| purchased office fixtures by cheque | | |
| sold computer for cash | | |
| took printer for personal use | | |

[8]

**(c)** State **one** reason why a trial balance is prepared.

View solution

.....

..... [1]

**(d)** Complete the following table, indicating with a tick (✓) where **each** account would appear in a trial balance.

View solution

| | debit column | credit column |
|---|---|---|
| capital | | |
| drawings | | |
| provision for depreciation | | |
| carriage inwards | | |
| carriage outwards | | |
| rent received | | |
| stationery | | |
| sales returns | | |

[4]

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**(e)** Give **one** example of **each** of the following errors which will **not** be revealed by a trial balance.

Error of commission .....

.....

Error of omission .....

.....

Compensating error .....

..... [3]

**(f)** Complete the following sentences.

View solution

Money spent on purchasing or improving non-current assets is known as .....

……

Money spent on the day-to-day running of a business is known as ……

…… [2]

**(g)** Complete the following table by placing a tick (✓) to indicate where **each** item will appear in the financial statements of Anwar, who owns a food store.

View solution

| | Income Statement | Statement of Financial Position |
|---|---|---|
| purchase of motor vehicle | | |
| charge for delivering motor vehicle | | |
| insurance for motor vehicle | | |
| fuel for motor vehicle | | |

[4]

[Total: 23]

**3** Lefika is a trader. He maintains a three column cash book.

Lefika had the following transactions in August 2018.

August 5 Received a cheque from Tabia, $441, in settlement of her account less 2% cash discount

8 Paid Tebago's account of $280 by cheque after deducting a cash discount of 2½%

16 Received a cheque from Nyack, $282, in full settlement of his debt of $290

28 Cash sales, $243, of which $153 was paid directly into the bank

30 Received $250 cash from the disposal of a non-current asset

31 Lefika took cash, $200, for personal use

31 Paid all the cash into the bank except $20

**REQUIRED**

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




Balance the cash book and bring down the balances on 1 September 2018.

[12]

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Lefika
Cash Book

| Date | Details | Discount allowed $ | Cash $ | Bank $ | Date | Details | Discount received $ | Cash $ | Bank $ |
|---|---|---|---|---|---|---|---|---|---|
| 2018 Aug 1 | *Balance b/d* | ..... | *30* | ..... | 2018 Aug 1 | *Balance b/d* | ..... | ..... | *1253* |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |

On 31 August Lefika's bank statement showed a bank overdraft of $812. He compared the cash book with the bank statement and found that the bank had not recorded the transactions entered in the bank columns of the cash book on the following dates.

August 8
16
28
31

**REQUIRED**

**(b)** Prepare a bank reconciliation statement at 31 August 2018.

View solution

Lefika
Bank Reconciliation Statement at 31 August 2018

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.....

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.....

..... [6]

Lefika's ledger is divided into a sales ledger, a purchases ledger and a nominal (general) ledger.

**REQUIRED**

**(c)** State **one** advantage of dividing the ledger into these three sections.

View solution

.....

..... [1]

**(d)** Name the ledger in which **each** of the following accounts would appear.

View solution

**(i)** Nyack (a credit customer) account ..... ledger

**(ii)** Purchases account ..... ledger

**(iii)** Discount received account ..... ledger

**(iv)** Tebago (a credit supplier) account ..... ledger

[4]

[Total: 23]

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**4** Ava operates a secretarial agency. Her financial year ends on 31 July.

She provided the following information on 31 July 2018.

1 A cheque for $194 was received from Wilma, a credit customer, whose account had been written off in 2016.

2 Gary, a credit customer, paid one third of the amount he owed in cash. The balance is regarded as irrecoverable and should be written off.

3 The provision for doubtful debts should be increased by $150.

4 The discount allowed for July 2018 of $144 should be transferred to the discount allowed account.

5 The office equipment cost $16 000 and is being depreciated using the straight line (equal instalment) method at 20% per annum. No office equipment had been bought or sold during the year.

**REQUIRED**

View solution

**(a)** Record this information in the following accounts in Ava's ledger at 31 July 2018.

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.

Ava
Bad debts recovered account

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

Bad debts account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| *2018* | | | | | |
| *July 1* | *Total to date* | *218* | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

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Gary account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| *2018* | | | | | |
| *July 1* | *Balance b/d* | *270* | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

Provision for doubtful debts account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| | | | *2017* | | |
| ..... | ..... | ..... | *Aug 1* | *Balance b/d* | *310* |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

Discount allowed account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| *2018* | | | | | |
| *July 1* | *Total to date* | *1495* | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

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Provision for depreciation of office equipment account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| ..... | ..... | ..... | *2017 Aug 1* | *Balance b/d* | *9600* |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... |

[14]

**(b)** Name **two** accounting principles Ava is applying by maintaining a provision for doubtful debts.

1 .....

2 ..... [2]

Ava allows her trade receivables a credit period of 30 days. She provided the following information.

View solution

| | At 31 July 2017 | At 31 July 2018 |
|---|---|---|
| Trade receivables collection period | 32 days | 28 days |

**REQUIRED**

**(c)** Comment on Ava's collection period for trade receivables.

View solution

.....

.....

.....

.....

..... [2]

Ava is proposing to ask clients to pay cash instead of offering credit terms.

**(d)** Suggest **two** effects of this proposal.

View solution

1 .....

.....

2 .....

..... [2]

[Total: 20]

**5** Khalid is a furniture wholesaler. His financial year ends on 30 September.
All purchases and sales are made on credit terms.

Khalid does not maintain a full set of accounting records but was able to provide the following information.

| | $ |
|---|---|
| On 1 October 2017 | |
| Inventory | 3100 |
| Trade receivables | 4620 |
| During the year ended 30 September 2018 | |
| Cheques received from trade receivables | 47970 |
| Discount allowed | 1230 |
| Bad debts written off | 115 |
| Total purchases | 39200 |
| On 30 September 2018 | |
| Trade receivables | 3305 |

After the warehouse was closed on 30 September a fire broke out and a quantity of the inventory was destroyed. The undamaged inventory was valued at $1500.

The profit mark-up is 25%.

**REQUIRED**

**(a)** Calculate the sales for the year ended 30 September 2018.

View solution

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..... [6]

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**(b)** Prepare an income statement (trading account section) to calculate the value of the inventory which was destroyed.

View solution

Khalid

Income Statement (Trading Account section) for the year ended 30 September 2018

| | $ | $ | $ |
|---|---|---|---|
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... |

[7]

**(c)** **(i)** Calculate the rate of inventory turnover. The calculation should include the total inventory before the fire broke out on 30 September 2018.

View solution

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

.....

.....

.....

..... [2]

**(ii)** State what is measured by the rate of inventory turnover.

View solution

.....

.....

..... [1]

Khalid decided that in future he would maintain a full set of double entry records and prepare control accounts at the end of each month.

**REQUIRED**

**(d)** Complete the table by using a tick (✓) to show where **each** of the following items would appear in Khalid's purchases ledger control account.

View solution

| | debit | credit |
|---|---|---|
| opening balance owed to credit suppliers | | |
| credit purchases | | |
| cheques paid to credit suppliers | | |
| cash discount received | | |
| contra between sales and purchases ledgers | | |

[5]

[Total: 21]

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**6** The financial year of FW Limited ends on 30 September.

The following information is available.

At 1 October 2017

| | $ |
|---|---|
| Ordinary share capital of $1 shares | 100 000 |
| 5% Debentures (repayable 2024) | 40 000 |
| General reserve | 15 000 |
| Retained earnings | 7 000 |

On 30 September 2018

| | $ |
|---|---|
| Issue of $1 ordinary shares | 50 000 |
| Profit for the year | 28 000 |
| Transfer to general reserve | 5 000 |
| Payment of ordinary share dividend | 9 000 |

**REQUIRED**

**(a)** Prepare an extract from the statement of financial position at 30 September 2018 to show the equity and reserves and non-current liabilities.

View solution

FW Limited
Extract from Statement of Financial Position at 30 September 2018

.....

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.....

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.....

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.....

..... [7]

**(b)** Define **each** of the following terms.

View solution

**(i)** Shareholders

.....

.....

..... [1]

View solution

**(ii)** Limited liability

.....

.....

..... [1]

View solution

**(c)** **(i)** State **one** difference between ordinary shares and preference shares.

| ordinary shares | preference shares |
|---|---|
| ..... | ..... |
| ..... | ..... |

[2]

View solution

**(ii)** State **two** similarities between preference shares and debentures.

1 .....

.....

2 .....

..... [2]

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The directors of FW Limited want to raise $60 000 to purchase additional premises.

The directors are considering two proposals:

Proposal 1 Issuing 5% debentures (repayable 2030)

Proposal 2 Issuing ordinary shares

It is anticipated that the ordinary share dividend will be 6% per annum.

**REQUIRED**

**(d)** State how **each** proposal would affect the profit of FW Limited in the next financial year (if at all). Give a reason for your answer in **each** case.




Proposal 1

Effect on profit .....

Reason .....

..... [2]

Proposal 2

Effect on profit .....

Reason .....

..... [2]

The following information was available on 30 September 2018.

| | $ |
|---|---|
| Inventory | 42 000 |
| Trade receivables | 34 000 |
| Trade payables | 35 000 |
| Cash at bank | 36 000 |
| Loan repayable on 1 January 2019 | 30 000 |

**REQUIRED**

**(e)** Calculate the current ratio.

View solution

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

.....

.....

..... [2]

**(f)** Complete the table by placing a tick (✓) in the correct column to indicate the effect **each** would have on the current ratio.

View solution

| | effect on current ratio | | |
|---|---|---|---|
| | increase | decrease | no effect |
| use the bank balance to repay the loan | | | |
| purchase non-current assets on credit | | | |
| sell half the inventory at cost price to cash customers | | | |
| pay amount owed to trade payables by cheque | | | |

[4]

[Total: 23]

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