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**ACCOUNTING** **0452/12**

Paper 1 **February/March 2019**

**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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**[Turn over**

There are 10 parts to Question 1.

For **each** of the parts **(a)** to **(j)** 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)** Faraz buys and sells new and used motor vehicles. He purchased a used motor vehicle from Tahir for $7000 which he paid for by cheque.

How would Faraz record this transaction?

| | account debited | account credited | |
|---|---|---|---|
| **A** | motor vehicles | bank | ☐ |
| **B** | motor vehicles | Tahir | ☐ |
| **C** | purchases | bank | ☐ |
| **D** | purchases | Tahir | ☐ [1] |

**(b)** Kala had the following assets and liabilities on 1 February 2019.

| | | $ | $ |
|---|---|---|---|
| Assets | Non-current assets | 48 000 | |
| | Inventory | 14 000 | |
| | Trade receivables | 16 500 | 78 500 |
| Liabilities | Trade payables | 17 000 | |
| | Bank overdraft | 9 100 | 26 100 |

On 2 February she paid Suki, a credit supplier, $1950 by cheque, after deducting a cash discount of $50.

What was Kala's capital after this transaction?

**A** $50 400 ☐

**B** $50 450 ☐

**C** $52 350 ☐

**D** $52 450 ☐ [1]

**(c)** Which tasks would be carried out by a book-keeper?

1 analysing business results

2 maintaining a cash book

3 preparing financial statements

4 writing up ledger accounts

**A** 1 and 2 ☐

**B** 1 and 3 ☐

**C** 2 and 4 ☐

**D** 3 and 4 ☐ [1]

**(d)** Zara provided the following information for the year ended 31 December 2018.

| | | $ |
|---|---|---|
| Amount owing by credit customers | 1 January 2018 | 2 250 |
| | 31 December 2018 | 1 500 |
| Cheques paid by credit customers | | 14 220 |
| Discount allowed to credit customers | | 80 |
| Goods returned by credit customers | | 2 150 |

How much were the credit sales for the year?

**A** $11 400 ☐

**B** $12 900 ☐

**C** $15 700 ☐

**D** $17 200 ☐ [1]

**(e)** Which statement about a bank reconciliation statement is correct?

**A** It includes items recorded by the trader not yet recorded by the bank. ☐

**B** It is a copy of the trader's account as it appears in the books of the bank. ☐

**C** It is sent by the bank to the trader at regular intervals. ☐

**D** It summarises the bank columns in a trader's cash book. ☐ [1]

**(f)** A trader provided the following information for his financial year.

| | $ |
|---|---|
| Revenue for the year | 60 000 |
| Inventory at the start of the year | 6 000 |
| Purchases for the year | 44 000 |

The mark-up is 25%.

What was the value of the inventory at the end of the year?

**A** $2000 ☐

**B** $5000 ☐

**C** $12 000 ☐

**D** $15 000 ☐ [1]

**(g)** 'Financial statements must be free from errors and bias.'

Which accounting objective is this statement describing?

**A** comparability ☐

**B** reliability ☐

**C** relevance ☐

**D** understandability ☐ [1]

**(h)** A trader provided the following information.

| | $ |
|---|---|
| Cost of sales | 48 000 |
| Gross profit | 32 000 |
| Expenses | 17 000 |

What was the profit for the year as a percentage of revenue?

**A** 15.46% ☐

**B** 18.75% ☐

**C** 30.61% ☐

**D** 35.42% ☐ [1]

**(i)** Which will increase a trader's working capital?

**A** delaying payment to credit suppliers ☐

**B** obtaining a short-term bank loan ☐

**C** selling inventory at cost price ☐

**D** selling non-current assets ☐ [1]

**(j)** Which accounting principle requires profit to be recognised as earned when the legal ownership of goods passes to the purchaser?

**A** going concern ☐

**B** money measurement ☐

**C** prudence ☐

**D** realisation ☐ [1]

[Total: 10]

**2** Gurdeep divides his ledger into three sections – nominal (general) ledger, sales ledger and purchases ledger.

He prepares monthly control accounts for his sales and purchases ledgers.

**REQUIRED**

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

.....

..... [1]

**(b)** Give **two** examples of accounts which may appear in Gurdeep's nominal (general) ledger.

1 .....

2 ..... [2]

**(c)** Complete the table by placing a tick (✓) in the correct column to indicate where **each** item would appear in Gurdeep's purchases ledger control account.

If the item does not appear place a tick in the 'no entry' column.

| | debit | credit | no entry |
|---|---|---|---|
| opening balance owed to credit suppliers | | | |
| credit purchases | | | |
| cash purchases | | | |
| cash refund received from a credit supplier | | | |
| cash discount received from credit suppliers | | | |
| trade discount received from credit suppliers | | | |
| interest charged on an overdue account | | | |
| contra entry to sales ledger control account | | | |

[8]

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**(d)** Prepare an entry in Gurdeep's journal to write off as irrecoverable a debt of $54 owed by Sasha. A narrative **is** required.

Gurdeep
Journal

| | Debit $ | Credit $ |
|---|---|---|
| ..... | ..... | ..... |
| ..... | ..... | ..... |
| ..... | ..... | ..... |
| ..... | ..... | ..... |

[3]

**(e)** State the meaning of the term 'bad debt recovered'.

.....

..... [1]

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

1 .....

2 ..... [2]

**(g)** Suggest **two** reasons why Gurdeep's suppliers would be interested in his financial statements.

1 .....

.....

2 .....

..... [2]

**(h)** Name **two other** interested parties who may wish to see Gurdeep's financial statements.

1 .....

2 ..... [2]

[Total: 21]

**3** Sarah maintains a petty cash book using the imprest system. The imprest amount is $250 and this is restored from the bank account on the first day of each month.

**REQUIRED**

**(a)** State **two** advantages of the imprest system of petty cash.

1 .....

.....

2 .....

..... [2]

Sarah had $38 in the petty cash box on 1 January 2019.

The following transactions took place in January 2019.

| | | | $ |
|---|---|---|---|
| January | 1 | Restored petty cash to the imprest amount | ? |
| | 6 | Cleaner repaid overpayment made in December | 10 |
| | 8 | Paid Eva, a credit supplier | 62 |
| | 13 | Purchase of refreshments for office | 9 |
| | 18 | Paid Olivia, a credit supplier | 43 |
| | 21 | Paid for taxi fare | 14 |
| | 24 | Cost of flowers for office | 10 |
| | 31 | Paid cleaner's wages | 80 |

**REQUIRED**

**(b)** Enter the above transactions in Sarah's petty cash book on the page opposite.

Balance the petty cash book and bring down the balance on 1 February 2019.

[11]

Sarah
Petty Cash Book

| Total received $ | Date | Details | Total paid $ | Office expenses $ | Travel $ | Cleaning $ | Ledger accounts $ |
|---|---|---|---|---|---|---|---|
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
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| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
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| ..... | ..... | ..... | ..... | ..... | ..... | ..... | ..... |

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**(c)** Show the entries which would be made in the cleaning account in January 2019.
It is **not** necessary to total or balance the account.

Sarah
Cleaning account

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

[2]

**(d)** State how the double entry would be completed for the items recorded in the ledger accounts column of the petty cash book.

.....

.....

..... [2]

**(e)** **(i)** State the amount which would be received on 1 February when the petty cash is restored to the imprest amount.

..... [1]

**(ii)** State the double entry which would be made on 1 February for restoring the imprest amount.

| debit | credit |
|---|---|
| ..... | ..... |

[2]

[Total: 20]

**PLEASE TURN OVER**

**4** The W Athletics Club had the following assets and liabilities on 1 March 2018.

| | $ |
|---|---|
| Balance at bank | 4105 |
| Equipment at valuation | 4500 |
| Subscriptions accrued | 550 |
| Accumulated fund | 6880 |
| Loan | 2000 |
| Subscriptions prepaid | 275 |

The treasurer prepared the following receipts and payments account for the year ended 28 February 2019.

W Athletics Club
Receipts and Payments Account for the year ended 28 February 2019

| | $ | | $ |
|---|---|---|---|
| Opening bank balance | 4105 | Repayment of loan | 2000 |
| Subscriptions received | 5940 | Loan interest | 100 |
| | | Equipment purchased | 1650 |
| | | General expenses | 890 |
| | | Rent and insurance | 4280 |
| | | Net cost of competitions | 310 |
| | | Closing bank balance | 815 |
| | 10045 | | 10045 |

The following additional information is available at 28 February 2019.

| | $ |
|---|---|
| Insurance prepaid | 240 |
| General expenses accrued | 30 |
| Subscriptions prepaid | 165 |
| Equipment at valuation | 5900 |

**REQUIRED**

**(a)** Calculate the subscriptions for the year ended 28 February 2019.

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.....

..... [5]

**(b)** Prepare the income and expenditure account for the year ended 28 February 2019.

W Athletics Club
Income and Expenditure Account for the year ended 28 February 2019

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..... [9]

**(c)** **(i)** List **two** items included in the receipts and payments account which should **not** appear in the income and expenditure account.

1 .....

2 ..... [2]

**(ii)** List **two** items included in the income and expenditure account which should **not** appear in the receipts and payments account.

1 .....

2 ..... [2]

**(d)** State the amount of subscriptions that should be included in the statement of financial position at 28 February 2019.
State whether it is an asset or a liability.

Amount .....

Asset or liability ..... [2]

**(e)** State the amount of the accumulated fund that should appear in the statement of financial position at 28 February 2019.

..... [1]

[Total: 21]

**5** Hari is a manufacturer of food for farm animals.

**REQUIRED**

**(a)** State the meaning of the following terms used in the financial statements of a manufacturing business.

**(i)** Prime cost

.....

..... [1]

**(ii)** Cost of production

.....

..... [1]

**(iii)** Work in progress

.....

..... [1]

Hari's financial year ends on 31 December.

He provided the following information for the year ended 31 December 2018.

| | $ |
|---|---|
| Purchases of raw materials | 142 500 |
| Carriage on raw materials | 1 680 |
| Factory wages – direct | 86 250 |
| indirect | 42 570 |
| Factory rent, rates and insurance | 14 000 |
| Factory machinery at cost | 95 000 |
| Provision for depreciation of factory machinery 1 January 2018 | 34 200 |
| Factory loose tools at valuation 1 January 2018 | 7 140 |

Additional information

1 The inventory of raw materials at 1 January 2018 was $13 500 which was $700 lower than the inventory of raw materials on 31 December 2018.

2 The inventory of work in progress at 1 January 2018 was $15 100 which was $900 higher than the inventory of work in progress at 31 December 2018.

3 At 31 December 2018 factory insurance prepaid amounted to $690 and factory rent, $1500, was accrued.

4 The factory machinery is being depreciated at 20% per annum using the reducing (diminishing) balance method.

5 The factory loose tools were valued at $6310 on 31 December 2018.

**REQUIRED**

**(b)** Prepare the manufacturing account for the year ended 31 December 2018.

Hari
Manufacturing Account for the year ended 31 December 2018

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..... [13]

The following information is available.

| | $ |
|---|---|
| Inventory of finished goods on 1 January 2018 | 24 000 |
| Inventory of finished goods on 31 December 2018 | 22 200 |
| Cost of goods sold for the year ended 31 December 2018 | 302 800 |

**REQUIRED**

**(c)** Calculate the rate of inventory turnover of finished goods.

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

.....

.....

.....

..... [2]

**(d)** **(i)** Complete the following sentence.

Hari should always value his inventory at the lower of .....

and ..... [1]

**(ii)** Name **one** accounting principle Hari is applying by valuing his inventory on this basis.

..... [1]

**(e)** Complete the table by placing a tick (✓) in the correct column to indicate the effect of Hari overvaluing his inventory of raw materials at 31 December 2018.

The first one has been completed as an example.

| | overstated | understated |
|---|---|---|
| Cost of materials consumed for the year ended 31 December 2018 | | ✓ |
| Cost of production for the year ended 31 December 2018 | | |
| Gross profit for the year ended 31 December 2018 | | |
| Current assets at 31 December 2018 | | |
| Profit for the year ending 31 December 2019 | | |

[4]

**(f)** Suggest **two** ways in which Hari could increase his gross profit.

1 .....

2 ..... [2]

[Total: 26]

**6** The financial year of B Limited ends on 31 December. The company obtained its long-term finance from the issue of 5% debentures, 6% preference shares and ordinary shares.

**REQUIRED**

**(a)** State the meaning of the following terms used in connection with limited companies.

**(i)** Called-up share capital

.....

..... [1]

**(ii)** Paid-up share capital

.....

..... [1]

**(iii)** Limited liability

.....

..... [1]

**(b)** Complete the table by placing a tick (✓) in the correct column to select the source of long-term finance to which **each** statement relates.

The first one has been completed as an example.

| | debentures | preference shares | ordinary shares |
|---|---|---|---|
| The holders receive dividend before ordinary share dividend. | | ✓ | |
| They are a long-term loan. | | | |
| The holders are entitled to vote at the annual general meeting. | | | |
| The holders receive a variable rate of dividend. | | | |
| The holders receive a fixed rate of dividend. | | | |
| If the company is wound up the holders are repaid after all other investors. | | | |

[5]

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

1 .....

.....

2 .....

..... [2]

**(d)** Complete the table by placing tick(s) (✓) in the correct columns to indicate where **each** of the following would be included in the financial statements of B Limited at 31 December 2018.

The first one has been completed as an example.

| | Income statement | Statement of changes in equity | Statement of financial position | No entry |
|---|---|---|---|---|
| Half year interest on debentures paid on 1 July 2018 | ✓ | | | |
| Half-year interest on debentures owing on 31 December 2018 | | | | |
| Payment of interim ordinary share dividend on 1 July 2018 | | | | |
| Payment of final ordinary share dividend for the year ended 31 December 2017 | | | | |
| Proposed ordinary share dividend at 31 December 2018 | | | | |
| Creation of general reserve | | | | |

[7]

The directors of B Limited are hoping to expand the business and have estimated that $30 000 will be required.

One director has proposed that the bank should be asked to provide overdraft facilities up to $30 000.

Another director has proposed making a further issue of 5% debentures.

**REQUIRED**

**(e)** Suggest **two** reasons why the proposal to ask for overdraft facilities should **not** be accepted.

1 .....

.....

2 .....

..... [2]

**(f)** Complete the table to indicate how each **value** would change if an issue of 5% debentures was made on 1 January 2019.
Where there is no effect place a tick (✓) in the column headed 'no effect'.

The first one has been completed as an example.

| | increase $ | decrease $ | no effect |
|---|---|---|---|
| total of current assets at 1 January 2019 | 30 000 | | |
| total equity at 1 January 2019 | | | |
| total of non-current liabilities at 1 January 2019 | | | |
| total profit for the year ending 31 December 2019 | | | |

[3]

[Total: 22]

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