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ACCOUNTING **0452/22**

Paper 2 Structured Written Paper **February/March 2022**

1 hour 45 minutes

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen. You may use an HB pencil for any diagrams or graphs.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 100.
- The number of marks for each question or part question is shown in brackets [ ].
- Where you are asked to complete a layout, you may not need all the lines for your answer.

This document has **20** pages. Any blank pages are indicated.

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1 Nazmeen started in business as a hairdresser on 1 January 2022. She purchases her hairdressing supplies on credit and uses the imprest system for her petty cash.

Nazmeen's assets and liabilities at 1 January 2022 were as follows:

	$
Motor vehicle	11 000
Balance at bank	2 300
Petty cash	200
Bank loan	2 500

REQUIRED

(a) (i) Prepare the general journal entry to record the opening assets and liabilities at 1 January 2022. A narrative is required.

Nazmeen
General journal

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

[4]

(ii) State one other use of the general journal.

..... [1]

Nazmeen makes all payments of less than $100 by petty cash. The imprest amount, which is $200, is restored on the first day of each month from the bank account.

Nazmeen provided the following information for January 2022.

January 3 Paid for petrol, $35.
8 Paid for magazines for the reception area, $14.
17 Paid $60 to GL Limited, a trade payable.
26 Paid for vehicle cleaning, $9.
29 Paid $38 to Alim, a trade payable.

REQUIRED

(b) (i) Complete Nazmeen's petty cash book on the following page.
Balance the petty cash book, bring down the balance on 1 February 2022 and restore the imprest.

Nazmeen
Petty Cash Book

Total received $	Date	Details	Total paid $	Motor expenses $	Sundry expenses $	Ledger accounts $
	2022					
.....	.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....	.....
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[10]

(ii) State one advantage of using the imprest system for petty cash.

..... [1]

Nazmeen receives business documents from her credit suppliers.

REQUIRED

(c) Complete the table below by placing a tick (✓) to indicate which document(s) each item appears on. The first one is completed for you.

	Invoice	Credit note	Statement of account
A credit purchase	✓		✓
The balance owing by Nazmeen to a supplier at the end of the month			
A purchases return			
Trade discount deducted from list price			
Payment made to a credit supplier			

[4]

[Total: 20]

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2 Ravi is a trader. He provided the following information.

		$
2021		
1 February	Sales ledger control account debit balance	12 510
	Sales ledger control account credit balance	1 245
2022		
31 January	Totals for the year:	
	Credit sales	134 000
	Cash sales	4 625
	Bank transfers received from credit customers	96 250
	Cash received from credit customers	12 890
	Returns from credit customers	4 000
	Irrecoverable debts written off	9 100
	Contra entries	1 677
	Discount allowed	4 643
	Discount received	2 119
	Interest charged on overdue sales ledger accounts	1 104
	Sales ledger control account debit balance	?
	Sales ledger control account credit balance	nil

REQUIRED

(a) Prepare Ravi's sales ledger control account for the year ended 31 January 2022. Balance the account and bring down the balance on 1 February 2022.

Ravi
Sales ledger control account

Date	Details	$	Date	Details	$
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[10]

(b) State the accounting principle which is being applied when irrecoverable debts are written off.

..... [1]

(c) Explain why the following interested parties want to know the level of Ravi's trade receivables.

(i) Bank manager

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..... [2]

(ii) Trade payables

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.....

.....

..... [2]

Ravi sends out statements of account to credit customers and charges interest on overdue accounts. He is concerned about the loss caused to his business by irrecoverable debts. He is considering employing a part-time credit controller to contact credit customers by telephone and to start legal action on overdue accounts if necessary. The credit controller would be paid $6800 per annum.

REQUIRED

(d) Advise Ravi whether or not he should employ the credit controller. Justify your answer.

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..... [5]

[Total: 20]

3 Pari owns a clothing factory. Her year end is 31 December.

At 31 December 2021, her ledger account balances included the following.

	$
Inventory at 1 January 2021	
Raw materials	6 100
Work in progress	9 420
Finished goods	11 350
Revenue	230 020
Purchases of raw materials	84 200
Wages	
Factory operatives	33 000
Factory supervisor	26 000
Office and sales staff	45 000
Rates and insurance	14 000
General factory expenses	11 500
Factory equipment – at cost	100 000
Factory equipment – provision for depreciation	36 000

Additional information

1. Inventory at 31 December 2021

Raw materials	6 840
Work in progress	9 885
Finished goods	12 630

2. Rates and insurance are to be apportioned equally between the factory and the office.

3. At 31 December 2021, general factory expenses of $500 were unpaid.

4. Factory equipment is depreciated at 20% per annum using the reducing balance method.

REQUIRED

(a) Prepare Pari's manufacturing account for the year ended 31 December 2021.

Pari
Manufacturing Account for the year ended 31 December 2021

	$	$
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[9]

(b) Prepare Pari's income statement (trading section) for the year ended 31 December 2021.

Pari
Income Statement (trading section) for the year ended 31 December 2021

	$	$
.....	.....	.....
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[4]

(c) Calculate Pari's gross margin. Your answer should be correct to **two** decimal places.

Gross margin	
working	answer

[2]

Pari is disappointed in her cost of production and gross profit. She is considering buying in her products instead of producing them in her factory.

REQUIRED

(d) Advise Pari whether or not she should start to buy in her products. Justify your answer.

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..... [5]

[Total: 20]

4 Demis is a trader. His financial year ends on 31 December.
He prepared the following trial balance which contains errors.

Demis
Trial balance at 31 December 2021

	Debit	Credit
	$	$
Sales		90 052
Purchases		52 420
Purchases	52 420	
Rates and insurance	11 500	
General expenses	1 092	
Property	92 500	
Fixtures at cost	34 000	
Provision for depreciation of fixtures		21 760
Trade receivables	7 410	
Trade payables	4 665	
Inventory		9 600
Cash at bank	8 095	
Capital at 1 January 2021		109 940
Drawings	11 320	
Suspense	60 770	
	283 772	283 772

Additional information

1. There was $80 in the petty cash box at 31 December 2021.

2. The value of inventory on 31 December 2021 was included in the trial balance.
The inventory valuation had increased by 20% since 31 December 2020.

REQUIRED

(a) Prepare a corrected trial balance at 31 December 2021.

Demis
Corrected Trial Balance at 31 December 2021

	Debit $	Credit $
Sales	.....	.....
Purchases	.....	.....
Rates and insurance	.....	.....
General expenses	.....	.....
Property	.....	.....
Fixtures at cost	.....	.....
Provision for depreciation of fixtures	.....	.....
Trade receivables	.....	.....
Trade payables	.....	.....
Inventory	.....	.....
Cash at bank	.....	.....
Capital at 1 January 2021	.....	.....
Drawings	.....	.....
.....	.....	.....
	_____	_____
	_____	_____

[6]

Demis has received a bank statement which shows that there were unpresented cheques of $437 at 31 December 2021. There were no outstanding lodgements.

REQUIRED

(b) Calculate the bank balance shown on the bank statement at 31 December 2021. Indicate whether this balance is a debit or a credit balance.

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..... [2]

Demis later discovered the following errors.

1 Drawings of goods for own use, $317, had been omitted from the books of account.

2 Purchases returns, $93, had been credited to the sales account.

3 A payment for property insurance, $500, had been debited to the property account.

4 A credit purchase, $315, from Erin, had been recorded as $135.

5 A credit sale, $191, to Harvinder, had been debited to the sales account and credited to Harvinder's account.

REQUIRED

(c) Complete the following table to show the entries required to correct **each** error.

Error	Entries required to correct the error			
	Debit		Credit	
	Account	$	Account	$
1. Drawings of goods for own use, $317, had been omitted from the books of account.	.....	.....	.....	.....
2. Purchases returns, $93, had been credited to the sales account.	.....	.....	.....	.....
3. A payment for property insurance, $500, had been debited to the property account.	.....	.....	.....	.....
4. A credit purchase, $315, from Erin, had been recorded as $135.	.....	.....	.....	.....
5. A credit sale, $191, to Harvinder, had been debited to the sales account and credited to Harvinder's account.	.....	.....	.....	.....

[10]

(d) Identify the following error types from the table above.

(i) error 2

..... [1]

(ii) error 4

..... [1]

[Total: 20]

5 Priti and Paisley are in partnership renting out properties. Paisley manages the office and maintains the bookkeeping records for the partnership.

The partnership agreement provides for

Interest on drawings	5% per annum
Interest on capital	4% per annum
Salary to Paisley	$6000 per annum

Residual profits and losses to be shared 75% to Priti and 25% to Paisley.

The partners provided the following list of balances.

	$
Capital accounts at 1 February 2021	
Priti	100 000
Paisley	20 000
Current accounts at 1 February 2021	
Priti	7 932 credit
Paisley	2 350 credit
Drawings for the year ended 31 January 2022	
Priti	15 000
Paisley	13 000

The profit for the year ended 31 January 2022 was $33 100.

REQUIRED

(a) Prepare the appropriation account for Priti and Paisley for the year ended 31 January 2022.

Priti and Paisley
Appropriation Account for the year ended 31 January 2022

	$	$
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[6]

(b) Prepare Paisley's current account for the year ended 31 January 2022. Balance the account and bring down the balance on 1 February 2022.

Paisley
Current account

Date	Details	$	Date	Details	$
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[6]

(c) Suggest three reasons why Paisley may **not** be satisfied with his overall share of the profit for the year to 31 January 2022.

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2 .....

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3 .....

..... [3]

Priti and Paisley are planning to purchase more properties to rent out. They are considering forming a limited company as they believe this would make it easier for them to raise the finance for the purchase of the properties.

REQUIRED

(d) Advise Priti and Paisley whether or not they should form a limited company.
Justify your answer with **two** advantages and **two** disadvantages.

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..... [5]

[Total: 20]

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