Cambridge International Examinations
Cambridge International General Certificate of Secondary Education

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

ACCOUNTING **0452/23**

Paper 2 **May/June 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 **21** printed pages and **3** blank pages.

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1 J Smith is a wholesaler. He provided the following incomplete document on 28 February 2018.

J Smith
Wholesale Supplier
112 Long Road
Westown

W Jones
High Street
Eastford

28 February 2018

Date	Reference	Debit $	Credit $	Balance $
2018				
Feb 1	Balance due			700
11	Goods	450		?
19	Returns		115	?
28	Payment		686	?
	Discount		14	?

REQUIRED

(a) **(i)** State the name of the document.

.....[1]

(ii) Calculate the balance on the document at the end of February 2018.

.....

.....[1]

(iii) Calculate the percentage of the discount on 28 February.

.....

.....

.....[1]

(iv) Name the type of discount on 28 February.

.....[1]

(b) Complete the following table by placing a tick (✓) in the correct column to indicate how J Smith would record the issue of this document in his accounting records.

debit entry in ledger account of W Jones	credit entry in ledger account of W Jones	no entry would be made

[1]

(c) Complete the following table relating to the transaction of 11 February.

document issued	name of person issuing document	entries made by W Jones	
		account debited	account credited
.....	.....	.....	.....

[4]

(d) Name the book of prime (original) entry in which **each** trader would record the transaction of 19 February.

book of prime (original) entry used by J Smith	.....
book of prime (original) entry used by W Jones	.....

[2]

The financial year of J Smith ends on 30 April. During the year ended 30 April 2018 he recorded a bad debt and a bad debt recovered.

REQUIRED

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

(i) Bad debt

.....

.....

.....[1]

(ii) Bad debt recovered

.....

.....

.....[1]

(f) Suggest **two** ways in which J Smith could reduce the risk of bad debts.

1 .....

.....

2 .....

.....[2]

J Smith maintains a provision for doubtful debts at the same percentage of the trade receivables at the end of each year.

REQUIRED

(g) Explain how maintaining a provision for doubtful debts is an application of the principle of prudence.

.....

.....

.....

.....[2]

(h) Explain how maintaining a provision for doubtful debts is an application of the principle of accruals (matching).

.....

.....

.....

.....[2]

J Smith provided the following information.

		$
30 April 2017	Trade receivables	18 400
	Provision for doubtful debts	460
30 April 2018	Trade receivables	17 600

REQUIRED

(i) Calculate the rate of the provision for doubtful debts as a percentage.

.....

.....[1]

(j) Prepare the provision for doubtful debts account for the year ended 30 April 2018. Balance the account and bring down the balance on 1 May 2018.

J Smith
Provision for doubtful debts account

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

[5]

[Total: 25]

2 Sophia is a food wholesaler. Her receipts and payments during the financial year ended 31 March 2018 included both capital and revenue items.

REQUIRED

(a) State the meaning of **each** of the following terms and give an example of each.

Capital expenditure

Meaning .....

.....

.....

Example .....

Capital receipt

Meaning .....

.....

.....

Example .....

Revenue expenditure

Meaning .....

.....

.....

Example .....

Revenue receipt

Meaning .....

.....

.....

Example .....[8]

After calculating her profit for the year ended 31 March 2018, Sophia discovered some errors had been made in her accounting records.

Error 1 Rent received from a tenant had been credited to the premises account.

Error 2 Legal costs on the purchase of a new warehouse had been debited to the general expenses account.

Error 3 Roof repairs to the existing warehouse had been debited to the premises account.

Error 4 Capital introduced had been included in the cash sales.

REQUIRED

(b) Complete the following table by placing a tick (✓) in the correct column to indicate the **effect** of **each** of the errors.

The first one has been completed as an example.

error	effect on profit for the year		effect on closing capital		
	overstated	understated	overstated	understated	no effect
error 1		✓		✓	
error 2					
error 3					
error 4					

[6]

Sophia maintains a full set of books of prime (original) entry including a three column cash book.

REQUIRED

(c) Explain why Sophia's cash book is both a book of prime (original) entry and also part of the ledger.

.....

.....

.....

.....[2]

The bank columns of Sophia's cash book for the month of April 2018 were as follows.

Cash book (bank columns only)

Date 2018	Details	$	Date 2018	Details	Cheque number	$
April 1	Balance b/d	950	April 2	Petty cash	000198	106
8	Goodfoods	140	15	Expenses	000199	25
28	CD Limited	280	21	Lowlands Farm	000200	44
30	Sales	311	29	FF Limited	000201	90

Sophia's business bank statement for April 2018 was as follows.

Bank Statement for the month of April 2018

2018			Debit $	Credit $	Balance $
April	1	Balance			850 Cr
	5	000198	106		744 Cr
	9	Credit		140	884 Cr
	12	Standing order (insurance)	50		834 Cr
	18	000199	25		809 Cr
	20	Dishonoured cheque (Goodfoods)	140		669 Cr
	27	000200	44		625 Cr
	30	Charges	15		610 Cr
		Direct debit (rates)	400		210 Cr

The following errors were discovered.

1 Sophia had brought down the cash book balance on 1 April 2018 incorrectly. It should have been $850.

2 The bank had incorrectly entered a standing order for insurance in Sophia's business bank account instead of her personal bank account.

REQUIRED

(d) Select the items required to update Sophia's cash book on 30 April 2018 and write these items in the table.
Indicate how **each** item would be entered in the cash book.
The first one has been completed as an example.

item	entry required in cash book	
	debit $	credit $
cash book error		*100*
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[3]

Sophia prepared a bank reconciliation statement on 30 April 2018. She started with the credit balance shown on the bank statement at that date.

REQUIRED

(e) Select the items which would be entered in Sophia's bank reconciliation statement on 30 April 2018 and write these items in the table.
Place a tick (✓) in the correct column to indicate how **each** item would be recorded in the bank reconciliation statement.

item	entry in bank reconciliation statement	
	added to bank statement balance	deducted from bank statement balance
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....
.....	.....	.....

[4]

[Total: 23]

3 Jamil started a business on 1 January 2014. He considered using the straight line (equal instalment) method to depreciate all his non-current assets.

REQUIRED

(a) Name **one** other method Jamil could use to depreciate his non-current assets.

.....[1]

(b) Suggest **two** reasons why the straight line (equal instalment) method would **not** be a suitable method of depreciation to apply to the hand tools used in Jamil's factory.

1 .....

.....

2 .....

.....[2]

Jamil decided to depreciate his office machinery at 20% per annum using the straight line (equal instalment) method calculated on a month-by-month basis from the date of purchase to the date of disposal.

He provided the following information.

2014	January 1	Purchased office machine A, $15 000, paying by cheque.
2016	October 1	Purchased office machine B, $18 000, paying by cheque.
2017	July 1	Purchased office machine C, $20 000, on credit from XY Limited. XY Limited agreed to accept office machine A in part exchange at a valuation of $6000.

REQUIRED

(c) Calculate the depreciation on office machinery for the year ended 31 December 2016.
Show your calculations and insert your answers in the spaces provided.

Calculation of depreciation for the year ended 31 December 2016

depreciation on office machine A	depreciation on office machine B	total
calculation answer $	calculation answer $	$ .....

[2]

(d) Calculate the depreciation on office machinery for the year ended 31 December 2017. Show your calculations and insert your answers in the spaces provided.

Calculation of depreciation for the year ended 31 December 2017

depreciation on office machine A	depreciation on office machine B	depreciation on office machine C	total
calculation	calculation	calculation	
answer $	answer $	answer $	$ .....

[3]

(e) Prepare the following accounts in the ledger of Jamil for **each** of the two years ended 31 December 2016 and 31 December 2017.

Balance the accounts and bring down the balances on 1 January 2017 and 1 January 2018.

Jamil
Office machinery account

Date	Details	$	Date	Details	$
2016					
Jan 1	*Balance A b/d*	*15 000*	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....

Provision for depreciation of office machinery account

Date	Details	$	Date	Details	$
			2016		
.....	.....	.....	*Jan 1*	*Balance A b/d*	*6 000*
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
.....	.....	.....	.....	.....	.....
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[11]

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

.....

.....

.....

.....

.....[4]

[Total: 23]

PLEASE TURN OVER

4 The financial year of AB Limited ends on 31 March. The income statement for the year ended 31 March 2018 showed a profit for the year of $35 000.

REQUIRED

(a) Complete the following statement of changes in equity for the year ended 31 March 2018, which has been partially prepared by the accountant.

AB Limited
Statement of Changes in Equity for the year ended 31 March 2018

	Ordinary share capital $	General reserve $	Retained earnings $	Total $
On 1 April 2017	*200 000*	*14 000*	*6 000*	*220 000*
Profit for the year	.....	.....	.....	*35 000*
Final dividend paid (for year ended 31 March 2017)	.....	.....	.....	*(10 000)*
Interim dividend paid (for year ended 31 March 2018)	.....	.....	.....	*(4 000)*
Transfer to general reserve	.....	*2 000*	.....	.....
At 31 March 2018	.....	.....	.....	.....

[6]

The following additional information was available on 31 March 2018.

	$	
4% Debentures (repayable 1 April 2022)	30 000	
Premises at cost	195 000	
Machinery at cost	98 000	
Office equipment at cost	39 500	
Provision for depreciation of machinery	35 280	
Provision for depreciation of office equipment	15 800	
Trade receivables	9 900	
Trade payables	10 020	
Other receivables	568	
Other payables	950	
Petty cash	200	
Bank	2 040	credit
Inventory	12 120	
Provision for doubtful debts	198	
Bank loan (repayable 1 January 2019)	20 000	

REQUIRED

(b) Prepare the statement of financial position at 31 March 2018.

AB Limited
Statement of Financial Position at 31 March 2018

	$	$	$
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
.....	.....	.....	.....
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	$	$	$
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[14]

The directors of AB Limited want to raise $100 000 in order to expand the business. After the first two years this should increase the annual profit before interest by $25 000.

It is proposed to raise the funds by either issuing more debentures or more ordinary shares.

REQUIRED

(c) Suggest **two** disadvantages to the existing ordinary shareholders if the funds are raised by the issue of debentures.

1 .....

.....

.....

2 .....

.....

.....[2]

(d) Suggest **two** disadvantages to the existing ordinary shareholders if the funds are raised by the issue of additional ordinary shares.

1 .....

.....

.....

2 .....

.....

.....[2]

[Total: 24]

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PLEASE TURN OVER

5 Aretta opened a clothes store on 1 April 2018.

She invested $12 800 as capital. Her father gave her a loan of $7200, repayable on 1 October 2018. Interest of 5% per annum was to be paid on the loan at the end of each month.

The credit side of Aretta's cash book for April 2018 was as follows.

		$
April 1	Shop fixtures and fittings	9 500
	Credit suppliers	15 000
	Rent of premises for 6 months	2 400
	Insurance for 12 months	3 600
April 30	Operating expenses	980
	Wages	1 900
	Drawings	1 500

Additional information

1 All purchases were made on credit terms and all sales were made for cash.

2 Aretta's gross profit margin was 25%.

3 No record was made of cash sales.

4 Aretta decided to depreciate the shop fixtures and fittings at 12% per annum using the straight line (equal instalment) method.

5 On 30 April 2018 inventory was valued at $4080 and $810 was owed to credit suppliers.

REQUIRED

(a) Prepare Aretta's income statement for the month ended 30 April 2018 to show the revenue, gross profit and profit for the month.

Aretta
Income Statement for the month ended 30 April 2018

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

[12]

On 30 April 2018 Aretta was concerned that her quick (acid test) ratio was very low. She considered six proposals to improve the ratio.

REQUIRED

(b) State the formula for the calculation of the quick (acid test) ratio.

.....

.....[1]

(c) Complete the following table by placing a tick (✓) in the correct column to indicate the effect of **each** proposal on Aretta's quick (acid test) ratio.
The first one has been completed as an example.

proposal		effect on quick ratio		
		increase	decrease	no effect
1	purchase a motor vehicle on credit		✓	
2	pay credit suppliers early to receive cash discount			
3	obtain a bank overdraft and repay the loan immediately			
4	arrange for the loan to be extended to 2 years			
5	sell on credit terms rather than on cash terms			
6	reduce inventory by selling half at cost price			

[5]

(d) State which proposal would affect the quick (acid test) ratio but **not** affect the current ratio. Explain the reason for your answer.

Proposal number .....

Reason .....

.....

.....

.....[3]

Aretta decided to compare her business performance with that of another clothes store in the same town.

REQUIRED

(e) Explain **two** factors Aretta should consider when comparing her business performance with that of the other business.

1 .....

.....

.....

.....

.....

2 .....

.....

.....

.....

.....[4]

[Total: 25]

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