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**ACCOUNTING**

**0452/21**

Paper 2

**October/November 2017**

MARK SCHEME

Maximum Mark: 120

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**Published**

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This document consists of **9** printed pages.

Question	Answer	Marks																																																																																																																																																											
1(a)	<p style="text-align: center;">Brian account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>2016</td> <td></td> <td>2017</td> <td></td> <td></td> </tr> <tr> <td>Aug 1 Balance b/d</td> <td style="text-align: right;">1 000</td> <td>July 31</td> <td>Cash</td> <td style="text-align: right;">720 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Bad debts</td> <td style="text-align: right;">280 (1)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">1 000</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">1 000</td> </tr> </table> <p style="text-align: center;">Bad debts account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; 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1(a)	<p style="text-align: center;">Provision for depreciation of office fixtures account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 30%;"></td> <td style="width: 10%; text-align: center;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>2017</td> <td></td> <td>2016</td> <td></td> <td></td> </tr> <tr> <td>July 31 Balance c/d</td> <td style="text-align: right;">15 435</td> <td>Aug 1 Balance b/d</td> <td style="text-align: right;">11 100</td> <td></td> </tr> <tr> <td></td> <td></td> <td>2017</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td>July 31 Income Statement</td> <td style="text-align: right;">4 335</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">15 435</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">15 435</td> <td></td> </tr> <tr> <td></td> <td></td> <td>2017</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td>Aug 1 Balance b/d</td> <td style="text-align: right;">15 435</td> <td style="text-align: right;">(1)OF</td> </tr> </table>		\$		\$		2017		2016			July 31 Balance c/d	15 435	Aug 1 Balance b/d	11 100				2017					July 31 Income Statement	4 335	(1)		15 435		15 435				2017					Aug 1 Balance b/d	15 435	(1)OF	
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1(b)	An estimate <b>(1)</b> of the amount which a business will lose/be unable to collect in a financial year because of bad debts <b>(1)</b>	<b>2</b>																																								
1(c)	<p>Percentage of the total amount owing by credit customers          Estimating which individual credit customers will not pay their accounts          Considering the length of time the debts have been outstanding          Estimate, based on experience, of amount lost each year from bad debts  <b>Any 1 point (1)</b></p>	<b>1</b>																																								
1(d)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">debit</td> <td style="width: 50%; text-align: center;">credit</td> </tr> <tr> <td style="text-align: center;">Income statement <b>(1)</b></td> <td style="text-align: center;">Provision for doubtful debts <b>(1)</b></td> </tr> </table>	debit	credit	Income statement <b>(1)</b>	Provision for doubtful debts <b>(1)</b>	<b>2</b>																																				
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1(e)	<p>The profit for the year is not overstated <b>(1)</b>          The trade receivables (current assets) are not overstated/shown at more realistic value <b>(1)</b></p>	<b>2</b>																																								
1(f)	The sales for which a business is unlikely to be paid <b>(1)</b> are regarded as an expense of the year in which those sales are made <b>(1)</b>	<b>2</b>																																								
1(g)	<p>Reduce credit sales/sell on a cash basis          Obtain references from new credit customers          Fix a credit limit for each customer          Improve credit control          Issue invoices and monthly statements promptly          Refuse further supplies until outstanding balance is paid          Allow cash discount for prompt payment          Charge interest on overdue accounts  <b>Any 2 points (1) each</b></p>	<b>2</b>																																								

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2(a)	<table border="1"> <thead> <tr> <th></th> <th>debit</th> <th>credit</th> <th>no entry</th> </tr> </thead> <tbody> <tr> <td>opening balance owed by credit customers</td> <td>✓(1)</td> <td></td> <td></td> </tr> <tr> <td>credit sales</td> <td>✓(1)</td> <td></td> <td></td> </tr> <tr> <td>cash sales</td> <td></td> <td></td> <td>✓(1)</td> </tr> <tr> <td>provision for doubtful debts</td> <td></td> <td></td> <td>✓(1)</td> </tr> <tr> <td>bad debts written off</td> <td></td> <td>✓(1)</td> <td></td> </tr> <tr> <td>cash discount allowed to credit customers</td> <td></td> <td>✓(1)</td> <td></td> </tr> <tr> <td>trade discount allowed to credit customers</td> <td></td> <td></td> <td>✓(1)</td> </tr> <tr> <td>contra between sales and purchases ledger</td> <td></td> <td>✓(1)</td> <td></td> </tr> <tr> <td>cash received from credit customers</td> <td></td> <td>✓(1)</td> <td></td> </tr> </tbody> </table>		debit	credit	no entry	opening balance owed by credit customers	✓(1)			credit sales	✓(1)			cash sales			✓(1)	provision for doubtful debts			✓(1)	bad debts written off		✓(1)		cash discount allowed to credit customers		✓(1)		trade discount allowed to credit customers			✓(1)	contra between sales and purchases ledger		✓(1)		cash received from credit customers		✓(1)		9
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2(c)(i)	An entry which appears on the debit side of the purchases ledger control account and the credit of the sales ledger control account (1)	1																																								
2(c)(ii)	It is made when a sales ledger account is set off against a purchases ledger account of the same person/business (1)	1																																								
2(d)	Overpayment of the amount owing Failure to deduct cash discount due Goods returned after account settled Payment made in advance <b>Any 2 reasons (1) each</b>	2																																								
2(e)(i)	$\frac{\text{Trade receivables}}{\text{Credit sales}} \times \frac{365}{1}$ } <b>whole formula (1)</b>	1																																								
2(e)(ii)	$\frac{20520}{186700} \times \frac{365}{1}$ } <b>whole formula (1)</b> = 40.11 = 41 days (1)	2																																								
2(f)	Offer cash discount for prompt payment Charge interest on overdue accounts Improve credit control/send invoices or statements promptly Refuse further supplies until outstanding balance paid Invoice discounting and debt factoring <b>Any 2 points (1) each</b>	2																																								

Question	Answer	Marks
2(g)	$\frac{\text{Trade payables}}{\text{Credit purchases}} \times \frac{365}{1}$ } whole formula (1)	1
2(h)	Will not be pleased May refuse further supplies May charge interest May issue stern reminders/threaten legal action <b>Or other suitable comment</b> <b>Any 2 comments (1) each</b>	2

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3(b)	<p style="text-align: center;">AS Sports Club</p> <p style="text-align: center;">Income and Expenditure Account for the year ended 30 September 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">\$</td> </tr> <tr> <td>Income</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Subscriptions</td> <td></td> <td></td> <td style="text-align: right;">12 000 (1)OF</td> </tr> <tr> <td>Profit on shop – revenue</td> <td style="text-align: right;">3 510</td> <td></td> <td></td> </tr> <tr> <td>    – less purchases</td> <td style="text-align: right;"><u>2 410</u></td> <td></td> <td style="text-align: right;"><u>1 100 (1)</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">13 100</td> </tr> <tr> <td>Expenditure</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Rates and insurance</td> <td></td> <td></td> <td></td> </tr> <tr> <td>    (1500 (1) + 60 (1))</td> <td></td> <td style="text-align: right;">1 560</td> <td></td> </tr> <tr> <td>Open day – expenses</td> <td style="text-align: right;">5 250</td> <td></td> <td></td> </tr> <tr> <td>    less receipts</td> <td style="text-align: right;"><u>4 180</u></td> <td style="text-align: right;">1 070</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Rent</td> <td></td> <td style="text-align: right;">1 800</td> <td style="text-align: right;">}(1)</td> </tr> <tr> <td>General expenses</td> <td></td> <td style="text-align: right;">2 640</td> <td style="text-align: right;">}</td> </tr> <tr> <td>Loan interest (5% × 7 000)</td> <td></td> <td style="text-align: right;">350</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation of Equipment</td> <td></td> <td></td> <td></td> </tr> <tr> <td>    ((22 000 + 8 000) × 20%)</td> <td style="text-align: right;"><u>6 000</u></td> <td style="text-align: right;"><u>13 420</u></td> <td></td> </tr> <tr> <td>Deficit</td> <td></td> <td></td> <td style="text-align: right;"><u>320 (1)OF</u></td> </tr> </table>		\$	\$	\$	Income				Subscriptions			12 000 (1)OF	Profit on shop – revenue	3 510			– less purchases	<u>2 410</u>		<u>1 100 (1)</u>				13 100	Expenditure				Rates and insurance				(1500 (1) + 60 (1))		1 560		Open day – expenses	5 250			less receipts	<u>4 180</u>	1 070	(1)	Rent		1 800	}(1)	General expenses		2 640	}	Loan interest (5% × 7 000)		350	(1)	Depreciation of Equipment				((22 000 + 8 000) × 20%)	<u>6 000</u>	<u>13 420</u>		Deficit			<u>320 (1)OF</u>	9
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– less purchases	<u>2 410</u>		<u>1 100 (1)</u>																																																																			
			13 100																																																																			
Expenditure																																																																						
Rates and insurance																																																																						
(1500 (1) + 60 (1))		1 560																																																																				
Open day – expenses	5 250																																																																					
less receipts	<u>4 180</u>	1 070	(1)																																																																			
Rent		1 800	}(1)																																																																			
General expenses		2 640	}																																																																			
Loan interest (5% × 7 000)		350	(1)																																																																			
Depreciation of Equipment																																																																						
((22 000 + 8 000) × 20%)	<u>6 000</u>	<u>13 420</u>																																																																				
Deficit			<u>320 (1)OF</u>																																																																			

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3(c)	<p style="text-align: center;">AS Sports Club Statement of Financial Position at 30 September 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;"></th> <th style="width: 15%; text-align: right;">\$</th> <th style="width: 15%; text-align: right;">\$</th> <th style="width: 15%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>Assets</b></td> </tr> <tr> <td>Non-current assets</td> <td>Cost</td> <td>Accumulated depreciation</td> <td>Book value</td> </tr> <tr> <td>Equipment</td> <td style="text-align: right;">30 000</td> <td style="text-align: right;">10 400 (1)OF</td> <td style="text-align: right;">19 600 (1)OF</td> </tr> <tr> <td colspan="4"><b>Current assets</b></td> </tr> <tr> <td>Other receivables (Subscriptions)</td> <td></td> <td></td> <td style="text-align: right;">240 (1)</td> </tr> <tr> <td>Total assets</td> <td></td> <td></td> <td style="text-align: right;">19 840</td> </tr> <tr> <td colspan="4"><b>Liabilities</b></td> </tr> <tr> <td colspan="4"><b>Accumulated fund</b></td> </tr> <tr> <td>Opening balance</td> <td></td> <td></td> <td style="text-align: right;">11 870 (1)</td> </tr> <tr> <td>Less Deficit</td> <td></td> <td></td> <td style="text-align: right;">320 (1)OF</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">11 550</td> </tr> <tr> <td colspan="4"><b>Non-current liabilities</b></td> </tr> <tr> <td>Bank loan (repayable 2020)</td> <td></td> <td></td> <td style="text-align: right;">7 000 (1)</td> </tr> <tr> <td colspan="4"><b>Current liabilities</b></td> </tr> <tr> <td>Other payables (loan interest)</td> <td></td> <td></td> <td style="text-align: right;">350 (1)OF</td> </tr> <tr> <td>Subscriptions prepaid</td> <td></td> <td></td> <td style="text-align: right;">180 (1)</td> </tr> <tr> <td>Bank</td> <td></td> <td></td> <td style="text-align: right;">760 (1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">1 290</td> </tr> <tr> <td>Total liabilities</td> <td></td> <td></td> <td style="text-align: right;">19 840</td> </tr> </tbody> </table>		\$	\$	\$	<b>Assets</b>				Non-current assets	Cost	Accumulated depreciation	Book value	Equipment	30 000	10 400 (1)OF	19 600 (1)OF	<b>Current assets</b>				Other receivables (Subscriptions)			240 (1)	Total assets			19 840	<b>Liabilities</b>				<b>Accumulated fund</b>				Opening balance			11 870 (1)	Less Deficit			320 (1)OF				11 550	<b>Non-current liabilities</b>				Bank loan (repayable 2020)			7 000 (1)	<b>Current liabilities</b>				Other payables (loan interest)			350 (1)OF	Subscriptions prepaid			180 (1)	Bank			760 (1)				1 290	Total liabilities			19 840	9
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3(d)	<p>Loan interest is an expense account/any accrued interest is a current liability (1) The loan is a non-current liability (1) <b>Accept other valid points</b></p>	2																																																																																

Question	Answer	Marks
4(a)	$(87\,500 + 56\,200 + 100) : (81\,500 + 17\,100)$ $= 143\,800 : 98\,600$ (1) <b>whole formula</b> $= 1.46 : 1$ (1)	2
4(b)	<p>Current assets only approximately 1½ times the current liabilities Lower than the “benchmark” of 2:1 Can meet the current liabilities from the current assets Do not have a lot of surplus current assets available after paying current liabilities Seems to be a little inadequate (depending on the type of business) <b>Comments to be based on answer to (a)</b> <b>Any 2 comments (1) each</b></p>	2

Question	Answer	Marks																																		
4(c)	$(56\,200 + 100) : (81\,500 + 17\,100)$ $= 56\,300 : 98\,600$ <b>(1) whole formula</b> $= 0.57 : 1$ <b>(1)</b>	2																																		
4(d)	Increased expenditure on inventory Increase in bank overdraft/change from positive bank balance to overdraft Purchase of non-current assets Repayment of long-term loan Increase in current liabilities/increase in trade payables Decrease in trade receivables Decrease in cash Increase in drawings <b>Any 2 reasons (1) each</b>	2																																		
4(e)	Unable to pay debts when they fall due Unable to take advantage of cash discounts Unable to take advantage of business opportunities when they arise May have difficulty in obtaining further supplies May not be able to take drawings <b>Any 2 points (1) each</b>	2																																		
4(f)	<table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">current ratio</th> <th colspan="3">quick ratio</th> </tr> <tr> <th>increase</th> <th>decrease</th> <th>no effect</th> <th>increase</th> <th>decrease</th> <th>no effect</th> </tr> </thead> <tbody> <tr> <td>introduce \$20 000 additional capital</td> <td>✓</td> <td></td> <td></td> <td>✓</td> <td></td> <td></td> </tr> <tr> <td>obtain short-term bank loan of \$10 000</td> <td></td> <td></td> <td>✓(1)</td> <td></td> <td></td> <td>✓(1)</td> </tr> <tr> <td>sell half the inventory at cost price</td> <td></td> <td></td> <td>✓(1)</td> <td>✓(1)</td> <td></td> <td></td> </tr> </tbody> </table>		current ratio			quick ratio			increase	decrease	no effect	increase	decrease	no effect	introduce \$20 000 additional capital	✓			✓			obtain short-term bank loan of \$10 000			✓(1)			✓(1)	sell half the inventory at cost price			✓(1)	✓(1)			4
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4(g)	$\frac{\text{Cost of sales}}{\text{Average inventory}}$	1																																		
4(h)	$\frac{765990}{(87500 + 72000) \div 2} \quad \text{Or} \quad \frac{765990}{87500 - (15500 \div 2)}$ $= \frac{765990}{79750} \quad \text{ } (1)$ $= 9.60 \text{ times } (1)$	2																																		
4(i)	Higher inventory levels Lower sales activity <b>Or other suitable reason</b> <b>Any 2 reasons (1) each</b>	2																																		

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5(a)	$\frac{43\,000}{(500\,000 + 11\,000 + 14\,000 + 75\,000)}$ $= \frac{43\,000}{600\,000} \times \frac{100}{1}$ $= 7.17\% \text{ (1)}$	3																																																						
5(b)	$\frac{25\,000}{500\,000} \times \frac{100}{1}$ $= 5\%$	1																																																						
5(c)	$\frac{15\,000 + 30\,000}{500\,000 + 100\,000} \times \frac{100}{1}$ $= \frac{45\,000}{600\,000}$ $= 7.5\% \text{ (1)}$	3																																																						
5(d)	$71\,000 - (3\% \times 75\,000)$ $= 71\,000 - 2\,250$ $= 68\,750 \text{ (1)}$	2																																																						
5(e)	<p style="text-align: center;">CP Limited Statement of Changes in Equity for the year ended 30 September 2017</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th>Ordinary share capital</th> <th>General reserve</th> <th>Retained earnings</th> <th>Total</th> <th></th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th></th> </tr> </thead> <tbody> <tr> <td><i>On 1 October 2016</i></td> <td style="text-align: right;">500 000</td> <td style="text-align: right;">11 000</td> <td style="text-align: right;">14 000</td> <td style="text-align: right;">525 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Share issue</td> <td style="text-align: right;">100 000</td> <td></td> <td></td> <td style="text-align: right;">100 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right;">68 750</td> <td style="text-align: right;">68 750</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Dividend paid (for year ended 30 September 2016)</td> <td></td> <td></td> <td style="text-align: right;">(25 000)</td> <td style="text-align: right;">(25 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Dividend paid (for year ended 30 September 2017)</td> <td></td> <td></td> <td style="text-align: right;">(15 000)</td> <td style="text-align: right;">(15 000)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Transfer to general reserve</td> <td></td> <td style="text-align: right;">5 000</td> <td style="text-align: right;">(5 000)</td> <td></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td><i>On 30 September 2017</i></td> <td style="text-align: right;">600 000</td> <td style="text-align: right;">16 000</td> <td style="text-align: right;">37 750</td> <td style="text-align: right;">653 750</td> <td style="text-align: right;">(1)</td> </tr> </tbody> </table>		Ordinary share capital	General reserve	Retained earnings	Total			\$	\$	\$	\$		<i>On 1 October 2016</i>	500 000	11 000	14 000	525 000	(1)	Share issue	100 000			100 000	(1)	Profit for the year			68 750	68 750	(1)OF	Dividend paid (for year ended 30 September 2016)			(25 000)	(25 000)	(1)	Dividend paid (for year ended 30 September 2017)			(15 000)	(15 000)	(1)	Transfer to general reserve		5 000	(5 000)		(1)	<i>On 30 September 2017</i>	600 000	16 000	37 750	653 750	(1)	7
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5(f)	Long term loans Debenture holders are not members of the company Do not carry voting rights Carry a fixed rate of interest Interest is not dependent on the company's profit Are often secured on the assets of the company's Debenture holders are repaid before the shareholders in a winding-up <b>Any 2 features (1) each</b>	2																								
5(g)	Carry a fixed rate of dividend Dividend may not be paid if there is not enough profit Dividend is paid before ordinary share dividend Preference shareholders are members of the company Do not usually carry voting rights Capital is repaid before ordinary share capital in a winding-up Are not secured on the assets of the company <b>Any 2 features (1) each</b>	2																								
5(h)	<table border="1" data-bbox="323 853 1313 1283"> <thead> <tr> <th></th> <th>increase \$</th> <th>decrease \$</th> <th>no effect</th> </tr> </thead> <tbody> <tr> <td>effect on current assets</td> <td>300 000</td> <td></td> <td></td> </tr> <tr> <td>effect on non-current liabilities</td> <td>300 000 (1)</td> <td></td> <td></td> </tr> <tr> <td>effect on profit for the year</td> <td></td> <td>9 000 (2)*</td> <td></td> </tr> <tr> <td>effect on profit available for ordinary shareholders</td> <td></td> <td>9 000 (1)OF</td> <td></td> </tr> <tr> <td>effect on equity</td> <td></td> <td></td> <td>✓(1)</td> </tr> </tbody> </table> <p>* (1) position + (1) amount</p>		increase \$	decrease \$	no effect	effect on current assets	300 000			effect on non-current liabilities	300 000 (1)			effect on profit for the year		9 000 (2)*		effect on profit available for ordinary shareholders		9 000 (1)OF		effect on equity			✓(1)	5
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