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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> <td style="width: 10%;"></td> </tr> <tr> <td>2016</td> <td></td> <td>2017</td> <td></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</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td>Bad debts</td> <td style="text-align: right;">280</td> <td style="text-align: right;">(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> <td></td> </tr> </table> <p style="text-align: center;">Bad debts account</p> <table style="width: 100%; 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1(b)	An estimate (1) of the amount which a business will lose/be unable to collect in a financial year because of bad debts (1)	2																																								
1(c)	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>	1																																								
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 (1)</td> <td style="text-align: center;">Provision for doubtful debts (1)</td> </tr> </table>	debit	credit	Income statement (1)	Provision for doubtful debts (1)	2																																				
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1(e)	The profit for the year is not overstated (1) The trade receivables (current assets) are not overstated/shown at more realistic value (1)	2																																								
1(f)	The sales for which a business is unlikely to be paid (1) are regarded as an expense of the year in which those sales are made (1)	2																																								
1(g)	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>	2																																								

Question	Answer	Marks																																								
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(b)	<table border="1"> <tbody> <tr> <td></td> <td>book of prime (original) entry</td> <td></td> </tr> <tr> <td>returns to credit suppliers</td> <td>purchases returns journal</td> <td>(1)</td> </tr> <tr> <td>discount received</td> <td>cash book</td> <td>(1)</td> </tr> <tr> <td>interest charged by credit supplier</td> <td>journal</td> <td>(1)</td> </tr> <tr> <td>contra entry to sales ledger control account</td> <td>journal</td> <td>(1)</td> </tr> </tbody> </table>		book of prime (original) entry		returns to credit suppliers	purchases returns journal	(1)	discount received	cash book	(1)	interest charged by credit supplier	journal	(1)	contra entry to sales ledger control account	journal	(1)	4																									
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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(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>	<b>2</b>																																																																																

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)	<b>2</b>
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>	<b>2</b>

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																																																						
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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																								
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