## Cambridge <br> International <br> AS \& A Level

## Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER


CANDIDATE NUMBER


## ACCOUNTING

9706/21
Paper 2 Structured Questions
May/June 2018
1 hour 30 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 rough working.
Do not use staples, paper clips, glue or correction fluid.
DO NOT WRITE IN ANY BARCODES.

Answer all questions.
All accounting statements are to be presented in good style.
International accounting terms and formats should be used as appropriate.
Workings must be shown.
You may use a calculator.

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.

1 Ashir, Bo and Chan are in partnership. The partnership agreement includes the following terms:
1 Profits and losses are shared in the ratio of the partners' capital accounts.
2 Interest on capital is $6 \%$ per annum.
3 Interest on drawings is 5\% calculated on each partner's total annual drawings.
4 Partners' loan interest is $12 \%$ per annum.
5 Chan receives a salary of $\$ 1000$ per month.
The following information is available at 31 December 2016:

## \$

Capital accounts
Ashir 40000
Bo 30000
Chan 10000
Current accounts
Ashir 12300
Bo 8200
Chan 2600 debit
Drawings
Ashir 15400
Bo 12200
Chan 16400
Fixtures and fittings
Cost
32400
Provision for depreciation 21400
Motor vehicles
Cost
80000
Provision for depreciation 48000
Loan account - Ashir 10000
Gross profit 171620
Operating expenses 54960
Staff wages 32500
Additional information
1 Operating expenses include a payment of $\$ 600$ for insurance covering the 12 -month period to 31 August 2017.

2 Staff wages owing at 31 December 2016 were $\$ 860$.
3 Depreciation is to be charged as follows:
Fixtures and fittings $10 \%$ per annum using the reducing balance method Motor vehicles $20 \%$ per annum using the straight-line method

3

## REQUIRED

(a) Prepare the income statement for the partnership for the year ended 31 December 2016. Start with the given gross profit of $\$ 171620$.
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(b) Prepare the profit and loss appropriation account for the partnership for the year ended 31 December 2016.
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(c) Prepare the partners' current accounts for the year ended 31 December 2016 on the next page.
Current Accounts


## Additional information

On 1 January 2017, Chan decided that he wished to retire with immediate effect. The partners agreed that as part of his settlement, he could keep one of the motor vehicles at the net book value of $\$ 18000$.

At that date it was agreed that the total value of goodwill was $\$ 124000$.

## REQUIRED

(d) Prepare a statement to calculate the bank settlement due to, or from, Chan on his retirement.
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## Additional information

Following Chan's retirement, Ashir and Bo are considering converting their business to a limited company to continue the business.

## REQUIRED

(e) State two advantages to a partnership of converting to a limited company.

1
$\qquad$

2 $\qquad$

## Additional information

Ashir's brother Bilal, a sole trader with three employees, has been running his business for four years. Turnover has doubled over the past year and the business is gradually becoming very profitable.

Bilal does not maintain a full set of accounting records, but his friend has recommended that he should.

## REQUIRED

(f) Advise Bilal whether or not he should maintain a full set of accounting records. Give reasons for your answer.
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(g) State two reasons for maintaining a sales ledger control account.

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2 The following information has been extracted from the books of account of FA Limited at 1 January 2016.
$\begin{array}{lr} & \$ \\ \text { Motor vehicles at cost } & 124000 \\ \text { Motor vehicles provision for depreciation } & 54250\end{array}$
The following information is also available.
1 All the company's motor vehicles had been purchased on 1 January 2014.
2 On 1 July 2016, a new motor vehicle was purchased for $\$ 48000$. The cost was settled by a cheque payment of $\$ 28000$, the balance by the part exchange of an old motor vehicle.

The vehicle that was part-exchanged had cost $\$ 36000$.
3 The company policy is to depreciate motor vehicles at $25 \%$ per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase, but none in the year of sale.

## REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 December 2016. (Dates are not required.)

Motor vehicles at cost

|  | $\$$ |  | $\$$ |
| :--- | :--- | :--- | :--- |
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|  |  |  |  |
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Motor vehicles provision for depreciation

|  | $\$$ |  | $\$$ |
| :--- | :--- | :--- | :--- |
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Disposal of non-current assets

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Workings
(b) Analyse the effect on the profit for the year ended 31 December 2016 if FA Limited had always used the straight-line method of depreciation at $\mathbf{2 0 \%}$ per annum. Show your workings.
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(c) Explain two accounting concepts that apply to making the annual charge for depreciation.

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2 $\qquad$
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$\qquad$

PLEASE TURN OVER

3 Anna has obtained the following data at 31 December 2016 in respect of Ravi, a possible new customer.

|  | $\$$ |
| :--- | ---: |
| Trade receivables | 20640 |
| Cash and cash equivalents | 4840 debit |
| Inventory | 38100 |
| Trade payables | 28760 |
|  |  |
| Other figures obtained are: |  |
|  |  |
| Sales for the year | 331750 |
| Inventory at 1 January 2016 | 46200 |
|  |  |
| Ravi has a mark-up of 25\%. |  |
| REQUIRED |  |

(a) Calculate the following ratios for Ravi's business to two decimal places:
(i) Current ratio
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(ii) Liquid (acid test) ratio
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(iii) Rate of inventory turnover
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## Additional information

Anna has also obtained the following data in respect of Yuan, another possible customer.
Current ratio $\quad 3.82: 1$
Liquid (acid test) ratio $\quad 1.63: 1$
Rate of inventory turnover 6.69 times per year
Anna's main concern when choosing the customer is that they should pay her promptly.

## REQUIRED

(b) Advise Anna which customer she should choose. Justify your answer.
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(c) State three limitations to a business of using ratio analysis.

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4 Zinan is a manufacturer and makes a single product. He currently uses marginal costing. The following budgeted information is available for two years.

|  | Year 1 | Year 2 |
| :--- | :---: | :---: |
|  | $\$$ | $\$$ |
| Direct labour | 38500 | 45500 |
| Direct material | 24750 | 29250 |
| Factory costs | 13750 | 15250 |
|  |  |  |
| Sales | Units | Units |
| Production | 10000 | 11000 |
|  | 11000 | 13000 |

The following information is also available.
1 Of the factory costs, $\$ 5500$ are fixed for each year and the remainder are variable.
2 Variable cost per unit is not expected to change.
3 Fixed selling costs are $\$ 3500$ for Year 1. These are expected to increase by $2 \%$ for Year 2.
4 Variable selling costs are expected to be $5 \%$ of the sales revenue for each year.
5 The selling price is $\$ 18$ per unit.
6 There was no opening inventory in Year 1.
REQUIRED
(a) Calculate the budgeted variable cost of production per unit.
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(b) Calculate the total budgeted contribution for each year.
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(c) Calculate the budgeted production cost per unit for each year.
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## Additional information

Zinan is considering using absorption costing.

## REQUIRED

(d) State two limitations of absorption costing.

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(e) Calculate the total budgeted profit for each of the two years using absorption costing.
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(f) Explain why profit calculated using absorption costing would be different to profit calculated using marginal costing.
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## Additional information

During actual production of a large order for 3000 units, Zinan discovers that the customer has ceased trading. If he cannot find another customer for these units he will have to decrease production for Year 1 and reduce staff.

To prevent this from happening, Zinan is proposing to attract new customers for the 3000 units with a marketing campaign.

The following information is available in respect of only the 3000 units.
1 The budgeted selling price would be reduced by $7.5 \%$.
2 Advertising costs would be $\$ 1000$.
3 There would be additional direct labour costs of $\$ 0.15$ per unit.

## REQUIRED

(g) Prepare a statement to calculate the effect on profit for Year 1 if the proposal is accepted.
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(h) Advise Zinan whether or not he should go ahead with the marketing campaign. Justify your answer using both financial and non-financial factors.
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[Total: 30]

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