Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

* 1 1 4 2 2 8 7 2 9 1 *

ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2019**

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.

This document consists of **21** printed pages and **3** blank pages.

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[Turn over

1 D Limited is a retailer of sports equipment. The following balances have been extracted from the books of account at 31 December 2018.

	Debit $000	Credit $000
8% Debentures (2021–23)		250
10% Bank loan		60
Administrative expenses	608	
Bank overdraft		11
Carriage inwards	8	
Carriage outwards	22	
Distribution costs	937	
Dividends paid	35	
Land and buildings at 1 January 2018		
Cost	2 100	
Provision for depreciation		360
Fixtures and fittings at 1 January 2018		
Cost	840	
Provision for depreciation		320
Motor vehicles at 1 January 2018		
Cost	202	
Provision for depreciation		106
Interest paid	29	
Inventory at 1 January 2018	620	
Property costs	239	
Purchases	2 502	
Retained earnings		898
Returns outwards		12
Revenue		5 120
Share capital – ordinary shares of $0.50 each		1 200
Share premium		60
Trade payables		385
Trade receivables	640	

The following information is also available.

1 Revenue included goods that had been sold to a customer on a sale or return basis on 28 December 2018. The selling price of the goods was $40 000 and they were sold at a mark-up of 25%. The directors were unsure whether or not the goods would be returned.

2 Inventory on D Limited's premises at 31 December 2018 had been counted and valued at a cost of $585 000.

3 Included in distribution costs is $24 000 in respect of delivery van licenses for the year ended 31 March 2019.

4 The breakdown of land and buildings cost at 1 January 2018 was:

	$
Land	1 200 000
Buildings	900 000
	2 100 000

The buildings were revalued on 2 January 2018 at $1 050 000. This has not yet been recorded in the books of account.

5 At 31 December 2018, administration wages and salaries accrued totalled $15 000.

6 The directors wish to create a provision for doubtful debts of 3%. This is to be included in administrative expenses.

7 Depreciation is to be charged as follows:

Asset	Annual rate	Method	Charge to
Fixtures and fittings	15%	Reducing balance	Administrative expenses
Buildings	2%	Straight-line	Property costs
Motor vehicles	25%	Reducing balance	75% Distribution costs 25% Administrative expenses

8 A full year's interest has been paid on debentures and bank loan.

REQUIRED

(a) Prepare the income statement for the year ended 31 December 2018. Use the space on the next page for your workings.

D Limited
Income statement for the year ended 31 December 2018

	$000
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Property costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings

Revenue
Cost of sales
Administrative expenses
Distribution costs
Property costs
Depreciation

[13]

(b) Prepare an extract showing the current assets section only of the statement of financial position at 31 December 2018.

D Limited
Extract from the statement of financial position at 31 December 2018

Current assets

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(c) Prepare a statement for the directors to show the total value of equity at 31 December 2018.

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Additional information

The directors wish to raise additional finance for expansion. They are considering two options.

1 Issue 5% preference shares of $1 each to raise $300 000.

2 Obtain an 8% bank loan to raise $300 000.

REQUIRED

(d) Advise the directors which option they should choose. Justify your answer.

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(e) Explain **two** differences between a bonus issue of shares and a rights issue of shares.

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[Total: 30]

2 John, Kathy and Liz have been in partnership sharing profits and losses in the ratio 4 : 3 : 3. They have agreed to dissolve the partnership.

REQUIRED

(a) State **three** reasons why a partnership may be dissolved.

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2 ....

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3 ....

.... [3]

Additional information

At the time of the dissolution the partnership's statement of financial position was as follows:

Statement of financial position at 31 March 2018

	$	$
Assets		
Non-current assets at net book value		
Motor vehicles	29 400	
Furniture and equipment	15 600	
		45 000
Current assets		
Inventory	14 920	
Trade receivables	11 540	
		26 460
Total assets		71 460
Capital and liabilities		
Capital accounts		
John	28 000	
Kathy	21 000	
Liz	19 000	
		68 000
Current accounts		
John	(2 200)	
Kathy	1 400	
Liz	(1 800)	
		(2 600)
Current liabilities		
Bank overdraft		6 060
Total capital and liabilities		71 460

The following information is also available.

1 At dissolution John took over the furniture and equipment at an agreed valuation of $9500 and the inventory at a valuation of $11 000.

2 Liz took over a motor vehicle at an agreed valuation of $16 600; the other motor vehicle was sold for $8450.

3 The balance of one credit customer who owed $740 was written off as irrecoverable. The remaining trade receivables settled their accounts in full less a cash discount of 5%.

4 Cost of dissolution, $2350, was paid from the bank account.

REQUIRED

(b) Prepare the partnership realisation account.

[7]

(c) Calculate the amount to be paid to, or to be received from, John on dissolution.

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[Total: 15]

PLEASE TURN OVER

3 Cheng, a sole trader, maintains control accounts.

REQUIRED

(a) Explain **two** benefits to a business of maintaining control accounts.

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Additional information

At 31 December 2018, Cheng's bookkeeper prepared a purchases ledger control account and a sales ledger control account. However, the balances of the control accounts did not agree with the total of the individual balances recorded in the relevant ledgers. The details were as follows:

	$
Purchases ledger	
Total of ledger accounts	18 496
Control account balance	18 981
Sales ledger	
Total of ledger accounts	11 117
Control account balance	12 385

Cheng's bookkeeper has discovered the following:

1 Cash sales of $480 had been recorded in the sales ledger control account.

2 A credit note for $228 had been recorded as $282 in both the purchases returns journal and the supplier's account.

3 The account of a customer with a balance of $485 had been set off against his account in the purchases ledger. No record of this transaction had been made in the purchases ledger control account.

4 Interest of $67 charged by a trade supplier on an overdue account had not been recorded in the books of account.

5 A dishonoured cheque of $394 had been correctly recorded in the cash book but had been posted to the credit side of the customer's account.

REQUIRED

(b) Prepare a corrected:

(i) Purchases ledger control account

	$		$
		Balance b/d	18 981

[4]

(ii) Sales ledger control account

	$		$
Balance b/d	12 385		

[2]

(c) Calculate amended totals for the:

(i) purchases ledger accounts

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(ii) sales ledger accounts.

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[Total: 15]

4 Ethan owns a factory which produces hand-painted pots. The factory employees receive piecework payments.

REQUIRED

(a) State what is meant by 'piecework payments'.

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(b) Explain what is meant by 'production overheads'.

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Additional information

The following budgeted information is available for the year ending 30 June 2020.

1 Sales ($12 per unit)

	$
1 July – 30 Sept 2019	171 000
1 Oct – 31 Dec 2019	171 000
1 Jan – 31 Mar 2020	186 000
1 Apr – 30 June 2020	192 000

2 Costs for the **year**

	$
Advertising	24 000
Direct labour	270 000
Direct material C	48 000
Direct material D	90 000
Fixed production overheads	30 000

3 The salesperson receives a basic salary plus commission payment.

Basic salary	$51 000 per annum
Commission	3.5% of sales revenue

REQUIRED

(c) Calculate for the year ending 30 June 2020:

(i) the **total** budgeted fixed selling expenses

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(ii) the **total** budgeted variable selling expenses

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(iii) the **total** budgeted contribution

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(iv) the **total** budgeted profit.

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Additional information

Ethan has received an order, directly from a customer, for an **additional** 15 000 pots at a selling price of $8 per pot. The order is to be delivered in November 2019.

The following information is relevant to this order.

1 The existing labour force can produce a maximum of 70 000 pots each year.

2 Additional temporary labour can be hired at $5.25 per unit.

3 The current supplier can only guarantee the material prices for a maximum of 70 000 pots. To purchase extra material C to produce any units in excess of 70 000 the cost will increase by 5% and the cost of material D will increase by 2%.

4 There is sufficient space in the factory to produce the order.

REQUIRED

(d) Calculate the additional profit or loss made on this order.

[13]

(e) Advise Ethan whether or not he should accept the order. Justify your answer taking into account **both** financial and non-financial factors.

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(f) State **two** benefits and **three** limitations to a business of using cost–volume–profit analysis.

Benefit 1 ....

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Benefit 2 ....

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Limitation 1 ....

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Limitation 2 ....

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Limitation 3 ....

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[5]

[Total: 30]

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