



Cambridge International AS & A Level

Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

ACCOUNTING

9706/23

Paper 2 Structured Questions

October/November 2016

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 Maneesh has not maintained a full set of accounting records for the year ended 31 December 2015. The following information has been provided:

Assets and liabilities at 1 January 2015

	Assets	Liabilities
	\$	\$
Non-current assets at net book value	83 400	
Inventory	18 500	
Trade receivables	22460	
Prepaid rent	1900	
Cash in hand	180	
Trade payables		12770
Accrued general expenses		1 320
Bank overdraft		5 640
Balance at 1 January 2015		<u>106710</u>
	<u>126 440</u>	<u>126 440</u>

Summary bank account for the year ended 31 December 2015

	\$		\$
Receipts from credit customers	176750	Balance at 1 January 2015	5640
Cash sales banked	7450	Payments to credit suppliers	138 132
Balance at 31 December 2015	17 272	Non-current assets	5200
		Drawings	14 120
		General expenses	11 280
		Rent	27 100
	201472		201472
		Balance at 1 January 2016	17 272

Additional information

- 1 Maneesh makes both cash and credit sales. All sales were made at 40% gross margin.
- 2 Credit sales for the year totalled \$184 190.
- 3 Credit purchases for the year totalled \$136422. There were no cash purchases.
- 4 The business maintains a cash float of \$180.
- 5 Maneesh withdrew \$20 per week from cash sales for drawings, before banking the rest.
- 6 Maneesh depreciates his non-current assets at 20% per annum using the reducing balance method.
- 7 The rent charge for the year was \$24600.
- 8 The general expenses charge for the year was \$14 160.
- 9 Irrecoverable debts of \$900 should be written off at 31 December 2015.

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REQUIRED

(a)	Prepare the income statement for the year ended 31 December 2015.
	Te3
	[6]



(b)	Prepare the statement of financial position at 31 December 2015.



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•••
 [9]



Additional information

Maneesh is concerned that the bank overdraft has increased substantially during the year ended 31 December 2015.

REQUIRED

(c)	Suggest to Maneesh four possible reasons for the increase in the bank overdraft.	
	1	
	2	
	3	
	4	
	4	
		ΓΔ



Additional information

Maneesh has been advised by the bank manager that the bank overdraft must be repaid in full as soon as possible. Maneesh's brother has offered the following possible solutions.

- 1 Lend Maneesh \$20 000 repayable in five equal annual instalments of \$5000 each (including interest).
- 2 Enter into a formal partnership with Maneesh in which his brother:
 - (i) immediately pays \$20 000 into the business bank account; and
 - (ii) receives 10% share of the future profits for the year.

REQUIRED

(d)	Advise Maneesh which option he should choose. Justify your answer.
	[7]



(e)	State two items which may be included in a partnership agreement (other than the sprofit)	share of
	which will affect the appropriation account	
	1	
	2	[2]
	which will not affect the appropriation account.	
	1	
	2	[2]
	[То	otal: 30]



Question 2 is on the next page.



2 Alice, Eve and Jean are in partnership sharing profits and losses in the ratio 5:3:2 respectively. The partnership statement of financial position at 30 June 2016 was as follows:

	\$	
Non-current assets at net book value	162 000	
Current assets		
Inventory	17 208	
Trade receivables	<u>11376</u>	
	28 584	
Total assets	<u>190 584</u>	
Capital accounts		
Alice	76 500	
Eve	63 000	
Jean	27 000	
	<u>166 500</u>	
Current accounts		
Alice	14 112	Debit
Eve	8 2 2 6	Credit
Jean	<u> 18 982</u>	Credit
	<u>13 096</u>	
Current liabilities		
Trade payables	8 5 3 2	
Bank overdraft	<u>2456</u>	
	<u> 10 988</u>	
Total capital and liabilities	<u>190 584</u>	

Additional information

On 1 July 2016

- 1 Alice retired from the partnership.
- 2 Monies due to Alice on her retirement were paid to her from the partnership bank account.
- 3 Non-current assets were revalued at 20% lower than the net book value.
- 4 Inventory had a net realisable value of \$12908.
- 5 An amount of \$1990 was written off as an irrecoverable debt.
- 6 Goodwill was valued at \$20,250 and was not to remain in the books of account.
- 7 Eve and Jean continued in partnership sharing profits and losses in the ratio 3:2 respectively.

REQUIRED

(a)	(i)	State what is meant by net realisable value.				
			[1]			



	(ii)	State two reasons why assets are revalued on the change of a partnership.	
		1	
		2	
	(iii)	Identify two situations where the capital accounts of partners may be adjusted to goodwill.	
		1	
		2	
			[2]
(b)	Pre	epare the partners' capital accounts at 1 July 2016.	
			••••
	••••		
	••••		••••
			••••
			••••
			[6]



Assess the impact of Alice's retirement on the partnership's statement of financial position.	(c)
[4	
[Total: 15	



Question 3 is on the next page.



3 Dolphin Limited is a bakery producing goods for wholesale.
The issued share capital of the company is 300 000 ordinary shares of \$2 each.
The directors offered a further 125 000 ordinary shares to family and friends.
The terms of issue were:

1 April 2016 – Payable on application \$1.00 per share 30 June 2016 – Final payment \$1.10 per share

Applications were received for 150 000 shares. All monies received were entered into a holding account called 'Application for Shares'. Transfers were made from this account to the relevant ledger accounts.

The applicants were issued shares and all final payments were received on the due date. Excess application monies were returned to applicants.

REQUIRED

(a)	Prepare the relevant ledger accounts to record the issue of shares.



	[10]
(b)	Explain two differences between ordinary shares and preference shares.
	1
	2
	[4]
(c)	Name one capital reserve.
	[1]
	[Total: 15]



A Rajesh is a manufacturer with a trading year end of 31 December. He currently uses absorption costing. The business operates two production cost centres and two service cost centres. Details of these cost centres and the budgeted overhead costs for the whole business for the year ended 31 December 2015 are as follows:

Overhead	\$	Basis of apportionment
Depreciation	8750	Non-current assets at cost
Machinery maintenance	27000	Machine hours
Power	15370	Kilowatt hours
Rent of premises	63510	Floor area

The following information is also available:

	Production cost centres		Service of	cost centres
	Machining	Assembly	Stores	Canteen
Floor area (square metres)	750	500	150	50
Kilowatt hours	3750	2500	750	250
Non-current asset at cost (\$)	90 000	30000	12000	8 000
Stores requisitions	150	75	-	-
Staff	20	30	3	-
Direct labour hours	2300	13900	-	-
Machine hours	14 100	2650	-	-

REQUIRED

(a) Apportion the overhead costs to the four cost centres and re-apportion the service cost centres costs to production cost centres using a suitable basis.

	Total	Production cost centres Service cost centre		st centres	
	Total -	Machining	Assembly	Stores	Canteen
	\$	\$	\$	\$	\$
Depreciation					
Machinery maintenance					
Power					
Rent of premises					
Re-apportionment of canteen					
Re-apportionment of stores					
Total overhead cost					

[8]



(b)	Calculate suitable overh decimal places.	ead absorption	rates for eac	h production cost centre correct to	two
					[4]
Ado	ditional information				,
The	following budgeted infor	mation is also a	available:		
		Product A	Product B		
Nur	nber of units	9400	6950		
	ect costs per unit	\$5.75	\$8.25		
	chine hours per unit	1.5	0.3		
	embly hours per unit	0.5	2.0		
RE	QUIRED				
(c)	Calculate the total cost p	er unit of Prod	uct A and Proc	duct B.	
					[4]



Additional information

The actual results for the year were as follows:

	Machining	Assembly
Factory overheads	\$76750	\$45675
Direct labour hours	2560	12650
Machine hours	16210	2490

REQUIRED

(d)	Calculate the over absorption or under absorption of overheads for each production c centre.	ost;
		[4]
(e)	State what is meant by allocation.	
		[1]
(f)	State what is meant by overhead costs.	
		••••
		[2]



(g)	Explain why overhead costs are re-apportioned from service cost centres.
	[2]
	[2]
Add	litional information
Raj	esh has been advised to change to a marginal costing system.
RE	QUIRED
(h)	Advise Rajesh whether or not he should change. Justify your answer.
	[5]

[Total: 30]

20

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