Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

8992235455

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 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.

This document consists of **18** printed pages and **2** blank pages.

IB18 11_9706_21/5RP

CAMBRIDGE International Examinations

1 Francesco is a sole trader who runs a small bicycle distribution business. He does not keep full accounting records.

REQUIRED

(a) State **two** benefits to a sole trader of keeping full accounting records.

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.... [2]

(b) Explain the accounting treatment at the year-end in the income statement and statement of financial position of:

Prepayments ....

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Accruals ....

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.... [4]

Additional information

Francesco provided the following information for the year ended 30 April 2017.

	$
Opening inventory	16 250
Total sales	82 500
Total purchases	62 750

Mark-up is 25%.

The normal rate of inventory turnover is 5 times. However, it was discovered at the year-end that some inventory had been stolen. No insurance claim has yet been made for this loss.

REQUIRED

(c) Prepare an extract from the income statement to show gross profit for the year ended 30 April 2017. Show clearly the value of inventory stolen.

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Workings:

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.... [5]

Additional information

The following information has also been provided.

1

	at 1 May 2016	at 30 April 2017
	$	$
Trade receivables	6 875	8 250
Trade payables	5 200	6 350
Expenses prepaid	625	775
Expenses owing	350	425

2 Expenses paid from the bank account amounted to $9925.

3 Rental income received by credit transfer amounted to $15 700.

4 Balance per bank statement at 30 April 2017 of $4150 was overdrawn.

5 Unpresented cheques amounted to $850.

6 Uncredited bankings amounted to $1975.

7 There were no cash transactions. All sales and purchases were on a credit basis.

REQUIRED

(d) Prepare the bank account for the year ended 30 April 2017. Clearly show the **opening** balance.

Bank account

	$		$

Workings:

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.... [8]

(e) Calculate the charge for total expenses which appeared in the income statement for the year ended 30 April 2017.

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.... [2]

Additional information

Francesco's brother, Marco, runs a similar business. He has calculated the following ratios for his own business:

	30 April 2016	30 April 2017
Current ratio	2.6 : 1	1.2 : 1
Liquid (acid test) ratio	1.4 : 1	0.8 : 1

REQUIRED

(f) Discuss the liquidity position of Marco's business using only the current and liquid (acid test) ratios.

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.... [4]

(g) Advise a potential new supplier whether or not to sell goods to Marco on a credit basis. Justify your answer.

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.... [5]

[Total: 30]

PLEASE TURN OVER

2 A business depreciates its non-current assets.

REQUIRED

(a) Explain why a business should comply with the following concepts when accounting for non-current assets.

Prudence ....

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Accruals (matching) ....

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.... [4]

Additional information

T Limited prepares accounts to 30 June.

The following balances are available at 30 June 2017:

	$
Plant and machinery at cost	174 300
Provision for depreciation	48 700

On 1 July 2017 the company disposed of a machine which had a net book value of $20 000. The machine had been purchased on 1 July 2015.

On 1 October 2017 a new machine was purchased for $68 600 paid by cheque.

The company depreciates plant and machinery at 20% using the reducing balance method calculated on a month-by-month basis. No depreciation is charged in the year of disposal.

REQUIRED

(b) Prepare the provision for depreciation on plant and machinery account for the year ended 30 June 2018. Dates **are** required.

Provision for depreciation on plant and machinery

		$			$

Workings:

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.... [8]

Additional information

Rather than paying immediately, the company had the option to pay in full for the new machine 15 months from the date of purchase.

REQUIRED

(c) Explain the impact on the financial statements for the year ended 30 June 2018 of paying for the new machine 15 months from the date of purchase.

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.... [3]

[Total: 15]

PLEASE TURN OVER

3 Aisha, Bilal and Cao have been in partnership for many years sharing profits and losses in the ratio 2 : 2 : 1.

Bilal decided to retire from the partnership at 31 January 2018.

Their statement of financial position at 31 January 2018 before any adjustments was as follows:

Aisha, Bilal and Cao
Statement of financial position at 31 January 2018

	$	$
Assets		
Non-current assets		
Premises	85 000	
Motor vehicles	32 000	
Fixtures and fittings	7 500	124 500
Current assets		
Inventory	16 200	
Trade and other receivables	4 800	21 000
Total assets		145 500
Capital and liabilities		
Capital accounts		
Aisha	48 000	
Bilal	48 000	
Cao	24 000	120 000
Current accounts		
Aisha	8 400	
Bilal	(1 200)	
Cao	6 400	13 600
Current liabilities		
Trade and other payables	5 600	
Bank overdraft	6 300	11 900
Total capital and liabilities		145 500

The following information is available.

1 The partners agreed that the value of goodwill at that date was $85 000.

2 It was also agreed that certain assets should be revalued to the following amounts.

	$
Premises	114 000
Inventory	15 000

3 As part of the final settlement, Bilal was entitled to retain one of the motor vehicles at its net book value of $11 400.

4 It was agreed that of the final settlement due to Bilal, $20 000 would be paid immediately by cheque and the balance would remain in the business as a loan.

REQUIRED

(a) Prepare a statement to calculate the profit or loss on revaluation at 31 January 2018.

[3]

(b) Prepare Bilal's capital account on his retirement from the partnership.

[6]

(c) Identify **three** ways, other than using bank finance, in which a partnership could raise funds to purchase a non-current asset.

1

2

3 [3]

(d) State **three** items that may be included in the appropriation account before the division of residual profit.

1 ....

2 ....

3 .... [3]

[Total: 15]

4 DH Limited manufactures a single product. The following information is available for one unit of that product:

	$
Selling price	20
Direct material	8
Direct labour	5
Variable overhead	3
Fixed overhead	2

Budgeted production is 200 000 units per annum.

REQUIRED

(a) Calculate the annual break-even point in units.

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.... [2]

(b) Calculate the **total** budgeted annual contribution and **total** budgeted annual profit.

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.... [2]

Additional information

The directors are considering reducing the selling price of the product by 10%. The new selling price would be lower than that of competitors. The directors are confident that as a result of this, sales volume would increase by 50%.

In order to produce the budgeted units, the company's labour force is currently working at 80% capacity. Workers will be paid an overtime premium of 25% for all production over 100% capacity.

The additional production would enable the company to qualify for 12.5% discount on all direct materials.

The revised production would result in the fixed overhead cost per unit reducing by 30% for **all** units produced.

REQUIRED

(c) Calculate the **total** budgeted annual profit if the directors proceed with their plans.

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.... [8]

(d) Calculate the revised break-even point in units if the directors proceed with their plans.

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.... [2]

(e) Calculate the margin of safety in units **and** as a percentage if the directors proceed with their plans.

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(f) Advise the directors whether or not they should proceed with their plans to reduce the selling price. Give reasons for your answer.

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Additional information

The company has used the same direct material supplier for many years, but the directors have now been informed that there will possibly be a shortfall of available material in the next six months. They have sourced an alternative material from a new supplier at the same price.

REQUIRED

(g) State **three** issues the directors should consider before changing a supplier.

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.... [3]

Additional information

The directors of DH Limited also use absorption costing.

REQUIRED

(h) State the meaning of each of the following terms.

(i) Allocation

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(ii) Apportionment

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(iii) Absorption

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[Total: 30]

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