



Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE
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CENTRE
NUMBER

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ACCOUNTING

9706/23

Paper 2 Structured Questions

October/November 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 **19** printed pages and **1** blank page.

- 1 S Limited is a private limited company. The directors have extracted the following information at 30 September 2019.

| | \$ | \$ |
|--|---------|---------|
| 6% debentures (2021 – 2022) | | 68 000 |
| Accrued expenses | | 2 480 |
| Administrative expenses | 63 810 | |
| Bank overdraft | | 12 770 |
| Carriage inwards | 3 600 | |
| Distribution costs | 49 330 | |
| Interest paid | 8 160 | |
| Inventory at 1 October 2018 | 62 500 | |
| Freehold property | 220 000 | |
| Motor vehicles | | |
| Cost | 84 600 | |
| Provision for depreciation at 1 October 2018 | | 38 760 |
| Office equipment | | |
| Cost | 68 700 | |
| Provision for depreciation at 1 October 2018 | | 32 300 |
| Prepaid expenses | 4 400 | |
| Purchases | 392 340 | |
| Retained earnings | | 69 700 |
| Returns inwards | 3 470 | |
| Revenue | | 764 570 |
| Share capital (ordinary shares of \$1 each) | | 50 000 |
| Share premium | | 15 000 |
| Trade payables | | 48 730 |
| Trade receivables | 86 500 | |
| Wages and salaries | 54 900 | |

The following information is also available:

- The value of inventory at 30 September 2019 was \$73 100 at cost. The directors now wish to write off \$2000 in respect of damaged items.
- Purchase of new office equipment of \$6000 had been posted to distribution costs in error.
- Motor vehicles are to be depreciated at 20% per annum using the straight-line method. The estimated residual value of the motor vehicles is \$20 000. Depreciation is to be charged to distribution costs.
- Office equipment is to be depreciated at 15% per annum using the reducing balance method. Depreciation is to be charged to administrative expenses.
- At 30 September 2019 there was an additional accrual for wages and salaries of \$1700. Wages and salaries are to be charged as 70% to administrative expenses and 30% to distribution costs.
- Interest paid included debenture interest paid to 30 June 2019.
- At 30 September 2019 there was an additional prepayment of \$4800 for administrative expenses.
- The directors wish to create a provision for doubtful debts equal to 2% of trade receivables at 30 September 2019 and include it in administrative expenses.

REQUIRED

- (a) Prepare the income statement for the year ended 30 September 2019. Use the space on the **next page** to show your workings.

S Limited
Income statement for the year ended 30 September 2019

| | \$ | \$ |
|-------------------------|----|----|
| Revenue | | |
| Cost of sales | | |
| Gross profit | | |
| Administrative expenses | | |
| Distribution costs | | |
| Profit from operations | | |
| Finance costs | | |
| Profit for the year | | |

Workings:

| |
|-------------------------|
| Cost of sales |
| Administrative expenses |
| Distribution costs |
| Finance costs |

[12]

(b) Prepare the statement of financial position at 30 September 2019. Use the space provided on the **next page** for your workings.

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Workings:

[10]

(c) Explain the term '6% debentures (2021 – 2022)', which appears in S Limited's financial statements.

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[3]

Additional information

Despite having made substantial profit for the year, the directors are concerned that the shareholders have not received any dividends.

They are considering two options:

option 1: paying the shareholders a dividend of \$0.50 per share

option 2: making a bonus issue of 1 ordinary share for every 2 shares held.

REQUIRED

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

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..... [5]

[Total: 30]

2 Moser has provided the following information about his non-current assets for the year ended 30 November 2018.

| | | |
|---|---|---------|
| 1 | Motor vehicles | \$ |
| | Cost at 1 December 2017 | 185 000 |
| | Accumulated depreciation at 1 December 2017 | 64 750 |
| | Purchased during the year | 27 745 |

2 A motor vehicle was sold during the year for \$12 450. It had originally cost \$18 500 and had a net book value of \$13 875.

3 The motor vehicles depreciation policy is as follows:

Motor vehicles are depreciated at a rate of 25% per annum using the reducing balance method.

A full year’s depreciation is charged in the year of purchase and no depreciation is charged in the year of disposal.

REQUIRED

(a) State how a disposal of a non-current asset would affect the income statement and the statement of financial position. Calculations are **not** required.

Income statement

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Statement of financial position

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..... [3]

(b) Prepare the non-current assets section of Moser’s statement of financial position at 30 November 2018.

| | Cost \$ | Accumulated depreciation \$ | Net book value \$ |
|--|------------|-----------------------------------|----------------------|
| | | | |

Workings:

[6]

(c) (i) Explain why the reducing balance method of depreciation is more appropriate than the straight-line method for assets such as computer equipment.

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(ii) Explain why the revaluation method of depreciation is appropriate for assets such as loose tools.

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[Total: 15]

PLEASE TURN OVER

3 Maria is a sole trader. Her financial statements for the year ended 31 December 2018 included the following:

| | |
|----------------------------|---------|
| | \$ |
| Revenue | 163 000 |
| Gross profit | 42 700 |
| Profit for the year | 16 500 |
| Inventory 1 January 2018 | 17 800 |
| Inventory 31 December 2018 | 19 600 |
| Trade receivables | 15 900 |
| Cash and cash equivalents | 2 700 |
| Trade payables | 10 700 |
| Capital | 130 000 |

REQUIRED

(a) Calculate the following ratios to **two** decimal places:

(i) gross margin

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(ii) profit margin

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(iii) rate of inventory turnover (in times)

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(iv) current ratio

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..... [1]

(v) liquid (acid test) ratio

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(vi) return on capital employed (ROCE).

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Additional information

Maria's ratios for 2017 were as follows:

| | | |
|---|----------------------------|------------|
| 1 | Gross margin | 23.63% |
| 2 | Profit margin | 12.05% |
| 3 | Rate of inventory turnover | 7.36 times |
| 4 | Current ratio | 3.85 : 1 |
| 5 | Liquid (acid test) ratio | 2.04 : 1 |
| 6 | ROCE | 14.65% |

REQUIRED

(b) Suggest possible reasons for the changes in Maria's business between 2017 and 2018 in respect of:

(i) profitability

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..... [2]

(ii) liquidity.

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(c) Identify **two** external stakeholders.

Explain why they may be interested in the financial statements of a business.

Stakeholder 1

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Interest

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Stakeholder 2

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Interest

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[4]

[Total: 15]

(c) Calculate a suitable overhead absorption rate to **two** decimal places for **each** production department.

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(d) Explain why a business calculates separate overhead absorption rates for each production department rather than a single rate for the whole factory.

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Additional information

The company accountant has been asked to provide a quotation for a customer who requires 200 units of the company's product. The directors wish to quote a selling price which will achieve a 25% gross margin.

Budgeted cost per unit of product

| | |
|---------------------|--------------------------------|
| Direct material | \$16.00 |
| Direct labour hours | |
| Machining | 10 minutes at \$9.60 per hour |
| Finishing | 45 minutes at \$10.80 per hour |
| Machine hours | |
| Machining | 90 minutes |
| Finishing | 20 minutes |

REQUIRED

(e) Prepare a statement to show the quoted selling price of **one unit** of the product.

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(f) Calculate the total amount the company would receive if the customer accepted the quoted price and then took a cash discount of 7½%.

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