

Cambridge  
International  
AS & A Level

**Cambridge International Examinations**  
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE  
NAME

CENTRE  
NUMBER

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|--|--|--|--|--|

CANDIDATE  
NUMBER

|  |  |  |  |
|--|--|--|--|
|  |  |  |  |
|--|--|--|--|

\* 8 2 7 6 7 1 6 4 8 5 \*



**ACCOUNTING**

**9706/23**

Paper 2 Structured Questions

**May/June 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 any diagrams or graphs or 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.

- 1 Bayliss Limited is a retailer of ladies' fashion material. The following trial balance has been extracted from the books of account at 31 December 2015:

|                                           | Dr<br>\$         | Cr<br>\$         |
|-------------------------------------------|------------------|------------------|
| 5% debentures (2017)                      |                  | 80 000           |
| Administrative expenses                   | 205 000          |                  |
| Cash and cash equivalents                 |                  | 32 000           |
| Distribution costs                        | 197 000          |                  |
| Dividends paid                            | 10 000           |                  |
| General reserve                           |                  | 21 000           |
| Interest paid                             | 13 000           |                  |
| Inventory at 1 January 2015               | 98 000           |                  |
| Non-current assets at cost/valuation      |                  |                  |
| Land and buildings                        | 185 000          |                  |
| Plant and machinery                       | 204 000          |                  |
| Provision for depreciation                |                  |                  |
| Buildings                                 |                  | 23 000           |
| Plant and machinery                       |                  | 94 000           |
| Ordinary shares of \$0.50 each fully paid |                  | 140 000          |
| Other payables                            |                  | 7 000            |
| Other receivables                         | 3 000            |                  |
| Purchases                                 | 480 000          |                  |
| Retained earnings                         |                  | 61 000           |
| Revenue                                   |                  | 984 000          |
| Share premium                             |                  | 3 000            |
| Trade payables                            |                  | 59 000           |
| Trade receivables                         | 109 000          |                  |
|                                           | <u>1 504 000</u> | <u>1 504 000</u> |

#### Additional information

- Inventory at 31 December 2015 is valued at a cost of \$105 000.
- Land is included in the trial balance at a value of \$135 000. It is to be revalued to \$150 000 at 31 December 2015.
- Depreciation for the year ended 31 December 2015 is to be provided as follows:
  - Buildings – 2% per annum using the straight-line method
  - Plant and machinery – 10% per annum using the reducing balance method.
 All annual depreciation is to be charged to administrative expenses.
- Trade receivables includes a debt of \$9000 which is to be written off to administrative expenses at 31 December 2015.
- The directors wish to make provision for doubtful debts of 3% of trade receivables. The adjustment should be charged to administrative expenses.
- On 31 December 2015, Bayliss Limited made a bonus issue of shares on the basis of one ordinary share for every twenty ordinary shares held. The company policy is to leave reserves in their most flexible form. No entries have been made in the books of account in respect of the bonus issue.
- Debenture interest has been paid to 30 September 2015.



(b) Prepare the statement of changes in equity for Bayliss Limited for the year ended 31 December 2015.

Bayliss Limited

Statement of changes in equity for the year ended 31 December 2015

|                              | Share capital<br>\$000 | Share premium<br>\$000 | Revaluation<br>reserve<br>\$000 | General reserve<br>\$000 | Retained<br>earnings<br>\$000 | Total<br>\$000 |
|------------------------------|------------------------|------------------------|---------------------------------|--------------------------|-------------------------------|----------------|
| Balance at<br>1 January 2015 |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |
|                              |                        |                        |                                 |                          |                               |                |

[5]





.....  
.....  
.....  
.....  
.....  
..... [3]

**Additional information**

The statement of financial position of a limited company may include capital reserves and also revenue reserves.

**REQUIRED**

(e) Explain the difference between a capital reserve and a revenue reserve.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [4]

(f) State **one** example of a capital reserve.

..... [1]

**[Total: 30]**

2 The following information has been extracted from the financial statements of Thaw Limited at 31 December 2015.

|                               | \$      |
|-------------------------------|---------|
| Revenue                       | 156 000 |
| Purchases                     | 88 000  |
| Inventory at 31 December 2015 | 42 000  |
| Operating expenses            | 48 000  |
| Trade receivables             | 39 000  |
| Other receivables             | 2 000   |
| Cash in hand                  | 1 000   |
| Trade payables                | 29 000  |
| Other payables                | 8 000   |
| Bank overdraft                | 10 000  |
| 8% debenture (2019 – 2021)    | 6 000   |

Additional information

- 1 Inventory at 1 January 2015 was valued at \$34 000.
- 2 All sales and purchases were on credit.

**REQUIRED**

(a) Calculate the following ratios for Thaw Limited.

(i) Current ratio to **two** decimal places.

.....

.....

.....

..... [1]

(ii) Liquid (acid test) ratio to **two** decimal places.

.....

.....

.....

..... [1]



(iii) Trade receivables turnover (days)

.....  
.....  
.....  
..... [1]

(iv) Trade payables turnover (days)

.....  
.....  
.....  
..... [1]

(v) Inventory turnover (days)

.....  
.....  
.....  
..... [1]

(b) Discuss the ratios calculated in part (a) in respect of Thaw Limited's liquidity and comment on the overall position.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [4]



- 3 Wang and Yuan, who share profits and losses in the ratio 2:1, decided to dissolve their partnership. Their summarised statement of financial position at 30 September 2015 was as follows:

|                                   | \$                 |
|-----------------------------------|--------------------|
| Non-current assets                |                    |
| Land and buildings                | 60 000             |
| Motor vehicles                    | <u>10 000</u>      |
|                                   | <u>70 000</u>      |
| Current assets                    |                    |
| Inventory                         | 14 000             |
| Trade receivables                 | <u>16 000</u>      |
|                                   | <u>30 000</u>      |
| <br>Total assets                  | <br><u>100 000</u> |
| Capital and liabilities           |                    |
| Capital accounts                  |                    |
| Wang                              | 40 000             |
| Yuan                              | <u>25 000</u>      |
|                                   | <u>65 000</u>      |
| Current accounts                  |                    |
| Wang                              | (10 000)           |
| Yuan                              | <u>13 000</u>      |
|                                   | <u>3 000</u>       |
| Current liabilities               |                    |
| Trade payables                    | 26 000             |
| Bank                              | <u>6 000</u>       |
|                                   | <u>32 000</u>      |
| <br>Total capital and liabilities | <br><u>100 000</u> |

Additional information

- 1 Land and buildings were sold for \$70 000.
- 2 Yuan took one vehicle at an agreed value of \$3000 and the remaining vehicle was sold for \$3500.
- 3 Trade receivables realised \$15 000.
- 4 Trade payables were paid after taking a discount of \$1500.
- 5 The inventory was sold for \$12 000.
- 6 The expenses of dissolution were \$1700.

**REQUIRED**

**(a)** Prepare the partnership realisation account.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [5]

**(b)** Calculate the amount due to each partner when the bank account is closed on dissolution.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [7]

(c) State **two** reasons why a partner may have an overdrawn current account.

1 .....

.....

.....

2 .....

.....

..... [2]

(d) State why partnerships maintain separate capital accounts for each partner.

.....

..... [1]

[Total: 15]

4 Rahel manufactures a single product X and wishes to know the break-even point.

**REQUIRED**

(a) State what is meant by break-even point.

.....  
..... [1]

**Additional information**

The following budgeted information is available for product X.

|                             |               |
|-----------------------------|---------------|
| Selling price per unit      | \$2.00        |
| Contribution to sales ratio | 62.5%         |
| Fixed costs                 | \$50 000      |
| Production and sales        | 100 000 units |

**REQUIRED**

(b) Calculate the break-even point in units and \$ revenue.

(i) in units .....

.....

.....

.....

.....

(ii) in revenue .....

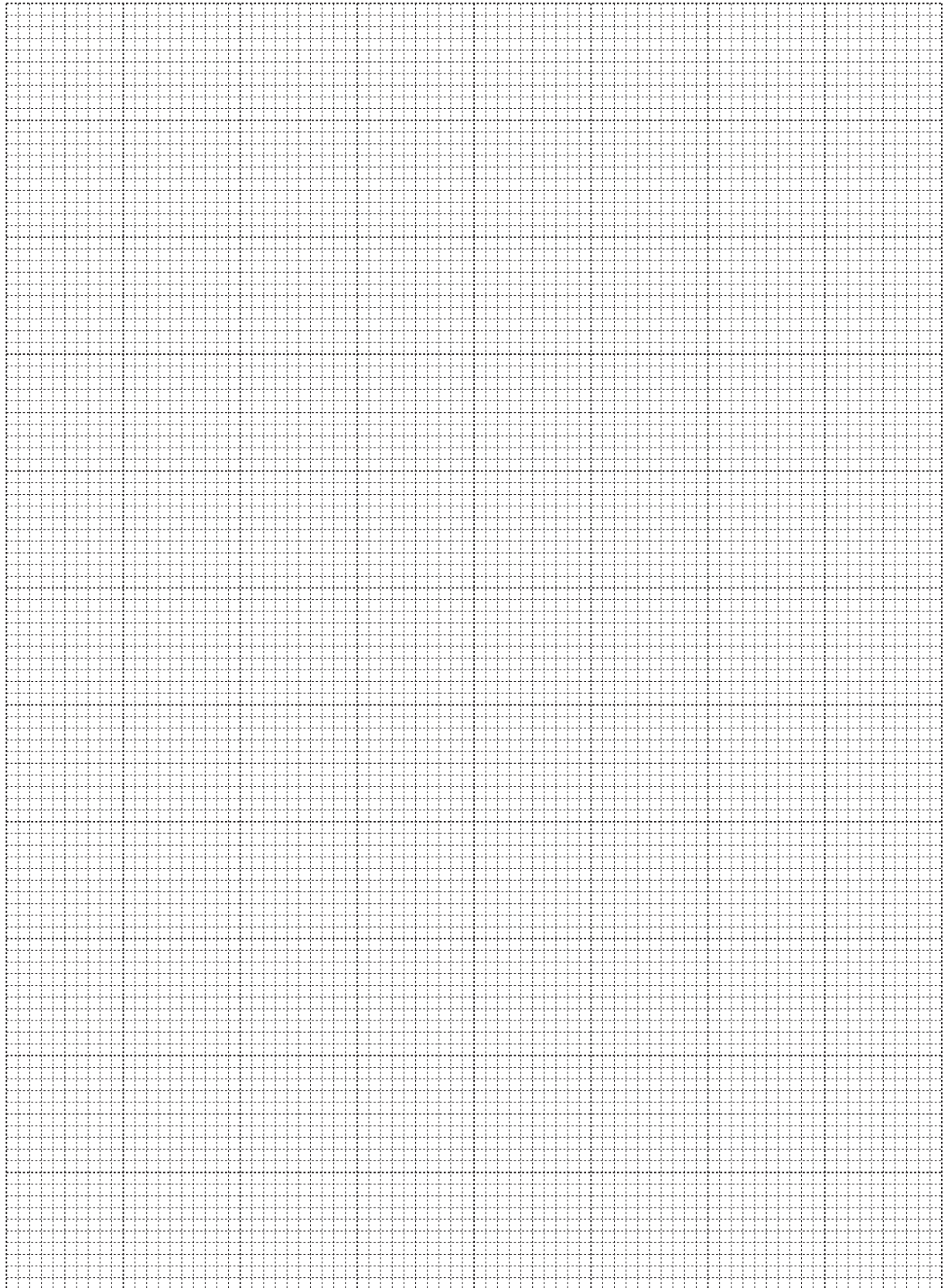
.....

.....

.....

..... [4]

(c) Prepare a break-even chart for product X.



[4]

(d) Calculate the margin of safety.

(i) in units .....

.....  
.....  
.....

(ii) as a percentage .....

.....  
.....  
..... [4]

**Additional information**

Rahel is considering opening another factory to produce two new products: Y and Z.

The following information is available.

|                              | Y<br>\$ per unit | Z<br>\$ per unit |
|------------------------------|------------------|------------------|
| Direct material              | 2                | 4                |
| Direct labour (\$5 per hour) | 10               | 5                |
| Variable overhead            | 1.5              | 1.5              |
| Selling price                | 23               | 18               |

Forecast demand for April is 4000 units of Y and 6000 units of Z.

**REQUIRED**

(e) Calculate the contribution per unit of **each** product Y and Z.

.....  
.....  
..... [2]



**Additional information**

During April, fixed costs are forecast to be \$60 000.

**REQUIRED**

(f) Calculate the forecast profit for the new factory for the month of April.

.....  
..... [1]

**Additional information**

During April, direct labour hours are expected to be limited to 10 000 hours.

**REQUIRED**

(g) Calculate the revised profit taking into account the limited direct labour hours.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [5]

**Additional information**

Rahel has to meet the forecast demand in April as she has contracts with her customers. In order to achieve this she has two alternatives.

- 1 Ask the workers to work overtime.
- 2 Buy in the products from another supplier.

**REQUIRED**

**(h)** Advise Rahel which option she should choose. Justify your answer.

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [5]

**(i)** State **one** advantage and **one** disadvantage of marginal costing.

Advantage

.....

.....

.....

Disadvantage

.....

.....

..... [4]

**[Total: 30]**

**BLANK PAGE**

**BLANK PAGE**

---

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at [www.cie.org.uk](http://www.cie.org.uk) after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.