

Cambridge
International
AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING

9706/21

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.

This document consists of **14** printed pages and **2** blank pages.

- 1 Alan and Jack have been in partnership for several years, sharing profits and losses equally. They prepare their financial statements annually to 30 September.

On 30 September 2014 the balances on their capital accounts were Alan \$139 800 and Jack \$128 000.

On 1 October 2014 the following took place:

- 1 Max joined the partnership. He paid \$27 000 into the partnership bank account and introduced inventory valued at \$5000.
- 2 Alan transferred \$15 000 from his capital account into a loan account. Interest on the loan is to be paid at 10% per annum. The loan is repayable by 30 September 2020.
- 3 The partners agreed a value for goodwill of \$40 000. No goodwill is to be recorded in the books.
- 4 Alan, Jack and Max are to share profits and losses in the ratio 2 : 2 : 1 respectively.

REQUIRED

- (a) Prepare the capital accounts of the partners at 1 October 2014 taking the above into account.

Alan, Jack and Max
Capital accounts at 1 October 2014

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..... [6]

(b) (i) State what is meant by goodwill.

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 [1]

(ii) State **three** factors which affect the value of goodwill.

1

 2

 3
 [3]

Additional information

The terms of the new partnership agreement included the following:

- Interest on capital 7.5% per annum on capital account balances at the end of each financial year
- Interest on drawings 3% on total drawings for the year
- Salary to Max \$10 000 per annum

The following information is also available for the year ended 30 September 2015:

| | Alan \$ | Jack \$ | Max \$ |
|---|--------------|--------------|-----------|
| Current account balances at 1 October 2014 | 9 500 Credit | 7 500 Credit | Nil |
| Drawings for the year ended 30 September 2015 | 16 000 | 24 000 | 8 000 |

The residual profit to be shared by the partners in the profit sharing ratio is \$90 000.

REQUIRED

(c) Prepare the partners' current accounts for the year ended 30 September 2015.

Alan, Jack and Max
Current accounts

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(d) Calculate the profit for the year ended 30 September 2015 transferred from the income statement to the appropriation account.

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..... [5]

- 2 Raheem is a trader who makes all his sales on credit. He prepared the following sales ledger control account for the month of December 2015:

| | | | |
|---------------|---------------|-----------------------|---------------|
| | \$ | | \$ |
| Balance b/d | 22 380 | Sales returns journal | 1 440 |
| Sales journal | 16 910 | Bank | 17 380 |
| | <u>39 290</u> | Balance c/d | <u>20 470</u> |
| Balance b/d | 20 470 | | |

Raheem extracted a list of customer account balances from the sales ledger at 31 December 2015 totaling \$18 740. This did not agree with the balance on the control account.

The following errors were found:

- 1 A sales invoice for \$960 had been correctly recorded in the sales journal, but had not been posted to the customer's ledger account.
- 2 A customer's irrecoverable debt of \$250 had not been written off in any of Raheem's books of account.
- 3 A cheque received, \$670, from a customer had been correctly recorded in the cash book. It had been entered on the debit side of the customer's ledger account as \$760.
- 4 A cheque received, \$200, from a customer had been returned unpaid by the customer's bank. No entry in respect of the returned cheque had been made in any of Raheem's books of account.
- 5 Discounts allowed of \$830 had not been entered in the control account. They had been entered in the customers' ledger accounts.
- 6 A contra to the purchases ledger of \$1370 had been entered in the customer's sales ledger account, but had not been included in the control account.

REQUIRED

- (a) Prepare the updated sales ledger control account for the month of December 2015. Start your answer with the balance brought down of \$20 470.

Sales ledger control account

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[5]

(b) Prepare a statement to reconcile the original total of sales ledger balances of \$18 740 with the closing balance on the amended sales ledger control account.

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..... [5]

(c) State **three** advantages to a business of maintaining a sales ledger control account.

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(d) State **two** types of errors that will **not** be identified by producing a sales ledger control account.

1

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[Total: 15]

(b) Explain why the company should not use its revaluation reserve to pay dividends to shareholders.

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(c) State **two** uses of a share premium account.

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2 [2]

(d) State the difference between a bonus issue of shares and a rights issue of shares.

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[Total: 15]

(b) Calculate the weekly margin of safety in **units** and in **revenue**.

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(c) Prepare an **annual** profit statement using marginal costing.

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Additional information

Businesses may value inventory using different methods.

REQUIRED

(g) Explain **two** advantages and **one** disadvantage of using the AVCO method of inventory valuation.

Advantage 1

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Advantage 2

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Disadvantage

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..... [6]

[Total: 30]

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