Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER				

2792330863

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2021**

1 hour 30 minutes

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any rough working.
- You may use a calculator.
- You should present all accounting statements in good style.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **20** pages. Any blank pages are indicated.

DC (LK) 206629/3

1 The following information has been extracted from the accounting records of T Limited at 30 June 2021.

1 Inventory at 1 July 2020 was valued at $46 800.

2 Inventory at 30 June 2021 was valued at $54 200.

3 The rate of inventory turnover was 8.8 times.

4 The gross profit margin was 45%.

REQUIRED

(a) Calculate for the year ended 30 June 2021:

(i) cost of sales

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.... [2]

(ii) revenue.

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.... [2]

Additional information

The following balances were extracted from the books of account at 30 June 2021.

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8% debentures (2026–2027)	96 000
Administrative expenses	55 900
Directors' remuneration	62 400
Distribution costs	59 200
Finance costs	6 350
Wages and salaries	88 300
Trade receivables	110 360
Provision for doubtful debts at 1 July 2020	1 235

The following information is also available.

1 The 8% debentures (2026–2027) were taken out on 1 November 2020. Interest was paid every three months in arrears, starting on 1 February 2021.

2 Wages and salaries of $3800 were owing at 30 June 2021.

3 At 30 June 2021, a bonus was due to be paid to the sales director of $12 000.

4 Expenses were to be allocated as follows:

	Administrative expenses	Distribution costs
Wages and salaries	30%	70%
Directors' remuneration	75%	25%

5 Depreciation is to be charged as follows:

Motor vehicles for office staff	$26 400
Delivery vehicles	$32 800

6 A credit customer owing $2360 from 12 April 2021 has been declared bankrupt and the debt is to be written off to administrative expenses.

7 Aged analysis of net trade receivables at 30 June 2021:

	0–60 days	61–90 days	Over 90 days
Percentage of total net trade receivables	75%	15%	10%

8 The directors wish to make a provision for doubtful debts as follows:

Debts 61–90 days	2.5%
Debts over 90 days	10%

The movement in the provision is to be charged to administrative expenses.

REQUIRED

(b) Calculate the balance of the provision for doubtful debts at 30 June 2021.

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.... [4]

(c) Prepare the income statement for the year ended 30 June 2021. Use the space on the **next page** for your workings.

T Limited
Income Statement for the year ended 30 June 2021

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

Workings

Administrative expenses
Distribution costs
Finance costs
Other workings

[11]

Additional information

The following transactions had also taken place during the year ended 30 June 2021.

Date	Transaction
1 July 2020	Freehold property was revalued downwards by $10 000.
1 July 2020	Made a rights issue of one ordinary share of $2 each for every two shares held. This was offered at a premium of $0.75. The issue was fully subscribed.
1 March 2021	Made a bonus issue of one ordinary share of $2 each for every ten shares held. Reserves were left in the most flexible form.
31 March 2021	Paid a dividend of $0.05 per share on all shares in issue at that date.

REQUIRED

(d) Prepare the statement of changes in equity for the year ended 30 June 2021.

T Limited
Statement of Changes in Equity for the year ended 30 June 2021

	Ordinary share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
At 1 July 2020	440 000	–	7500	86 320	533 820
At 30 June 2021					

[6]

Additional information

The directors make use of accounting ratios to interpret the information contained within the financial statements.

REQUIRED

(e) **(i)** State the formula for calculating the non-current asset turnover.

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(ii) State what information the directors would obtain from calculating the non-current asset turnover.

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.... [1]

(f) State **three** limitations of ratio analysis when comparing the performance of businesses in the same industry.

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[3]

[Total: 30]

2 Abbie, Ben and Cain have been in partnership for many years sharing profits and losses in the ratio 3 : 2 : 1.

The partnership's draft statement of financial position at 30 June 2021 is shown below.

Abbie, Ben and Cain
Statement of financial position at 30 June 2021

	$
Non-current assets	
Property	65 000
Motor vehicles	52 000
	117 000
Current assets	
Inventory	18 200
Trade receivables	13 700
Bank	800
	32 700
Total assets	149 700
Capital and liabilities	
Capital accounts	
Abbie	60 000
Ben	40 000
Cain	20 000
	120 000
Current accounts	
Abbie	18 520
Ben	(3 250)
Cain	6 230
	21 500
Current liabilities	
Trade payables	8 200
Total capital and liabilities	149 700

Ben retired from the partnership on 30 June 2021 and the following was agreed.

1 Ben should retain one of the motor vehicles at the net book value $14 500.

2 The remaining motor vehicles should be revalued at $33 000.

3 Property should be revalued at $77 000.

4 Inventory should be revalued at $17 000.

5 The value of goodwill was $39 000 and it was not to be retained in the books of account.

Any amounts due to Ben were to be transferred to a short-term loan to be repaid from the partnership bank account within one month.

Abbie and Cain decided to continue in partnership sharing profits and losses in the ratio 3 : 2.

Cain agreed to pay sufficient funds into the partnership bank account so that the partners' capital account balances reflected the new profit-sharing ratio.

REQUIRED

(a) State **one** reason why a partnership may revalue assets on the retirement of a partner.

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.... [1]

(b) Prepare the revaluation account at 30 June 2021.

Revaluation Account

	$		$

[3]

(c) Prepare the partners' capital accounts at 30 June 2021 on the **next page**.

Capital Accounts

	Abbie $	Ben $	Cain $		Abbie $	Ben $	Cain $

[6]

Additional information

Ben has indicated that he may be willing to leave $10 000 as an interest-free loan, but he requires any other amount due to be paid within one month.

In order to maintain sufficient working capital, Abbie and Cain are considering two options to finance the settlement due to Ben.

Option 1: Request an overdraft facility from the bank.

Option 2: Ask Ben to consider leaving the whole amount due as a 5% loan repayable over ten years in equal annual instalments.

REQUIRED

(d) Advise Abbie and Cain which option they should choose to finance the amount due to Ben.

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[Total: 15]

3 Petra owns a small manufacturing business. Her depreciation policy is as follows:

Non-current asset	Depreciation policy
Plant and machinery	20% per annum reducing balance method
A full year's depreciation is charged in the year of purchase but none in the year of sale.	

The following information in respect of plant and machinery has been extracted from the books of account for the year ended 31 July 2021.

Date	Details
1 August 2020	Cost, $26 800; Provision for Depreciation, $12 200.
1 January 2021	Purchased new machinery, cost $4200. This was settled by a cheque payment of $2450 and part exchange of machinery that had originally cost $2500 in September 2018.
31 July 2021	Machinery with an original cost of $850 and a net book value of $60 was scrapped with no proceeds.

REQUIRED

(a) Prepare the provision for depreciation account for plant and machinery for the year ended 31 July 2021.

Provision for Depreciation – Plant and Machinery

Date	Details	$	Date	Details	$
			2020 Aug 1	Balance b/d	12 200

[5]

Workings:

(b) Prepare the disposal account for the year ended 31 July 2021.

Disposal Account

Date	Details	$	Date	Details	$

[7]

(c) Discuss the reasons why a business may choose to depreciate plant and machinery using the reducing balance method.

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.... [3]

[Total: 15]

4 EMM is a manufacturing business producing one product, a wooden desk.

The business is contracted to supply 220 desks each week to H Co, a large retailer, at a selling price of $44 per unit.

The costs incurred by EMM are as follows:

	$	
Direct material	36.00	per unit
Production labour		
Salaries	410.00	per week
Bonus	0.50	per unit
Finishing labour		
Salaries	180.00	per week
Bonus	0.30	per unit
Machine hire	120.00	per week
Administration costs	400.00	per week
Rent and rates	240.00	per week

REQUIRED

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

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(b) **(i)** Define the term 'margin of safety'.

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(ii) Explain the usefulness of the margin of safety to a business.

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(c) Prepare a weekly profit statement using marginal cost principles.

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Additional information

EMM is concerned about future prospects. It has spare direct labour capacity and the machinery is not being fully utilised.

EMM has been approached by K Limited, a large furniture company, requesting a quotation to supply 80 desks each week. K Limited would require a small design change to the desks, and this would add $5.40 to the direct material cost. Workers on these desks would receive an additional finishing labour bonus of $0.20 per unit.

REQUIRED

(d) Calculate the selling price per unit that EMM should quote to K Limited in order to achieve a 20% contribution to sales ratio.

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Additional information

It has been decided to quote a price of $48 per unit to K Limited.

This work would involve employing extra finishing labour at a weekly salary of $120 and hiring an additional machine at $30 per week.

The contract with H Co to produce 220 desks each week would still be continued at a price of $44 per unit.

EMM has decided to set an annual target profit of $17 000.

REQUIRED

(e) Prepare a profit statement for EMM to show the **total** weekly contribution and **total** weekly profit if K Limited accepts the quotation.

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Additional information

K Limited have advised EMM that they will only proceed with the order if they are given 5% settlement discount for paying the account within seven days.

REQUIRED

(f) Calculate the total weekly profit of EMM if EMM agrees to giving the settlement discount.

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.... [1]

(g) Advise EMM whether or not the terms proposed by K Limited should be accepted. Justify your answer using **both** financial and non-financial factors.

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(h) State **two** advantages of cost–volume–profit analysis to management.

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[2]

(i) State **three** limitations of cost–volume–profit analysis.

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[Total: 30]

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