Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

1257680194

ACCOUNTING **9706/22**

Paper 2 Structured Questions **February/March 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 **19** printed pages and **1** blank page.

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CAMBRIDGE International Examinations

[Turn over

1 The trial balance of Seema Limited for the year ended 30 June 2015 shows these figures:

	Debit $	Credit $
Revenue		526 000
Purchases	342 000	
Inventory at 1 July 2014	37 500	
Selling and distribution expenses	37 510	
Administrative expenses	36 130	
Provision for doubtful debts		125
Interest paid	625	
Non-current assets at cost		
Warehouse buildings	300 000	
Motor vehicles	70 000	
Office equipment	25 000	
Provision for depreciation		
Warehouse buildings		12 000
Motor vehicles		12 500
Office equipment		1 500
Trade receivables	5 020	
Trade payables		6 270
Cash and cash equivalents	27 200	
140 000 Ordinary shares of $1 each		140 000
5% Debentures (2021 – 2025)		25 000
General reserve		25 000
Retained earnings		140 990
Interim ordinary dividends paid	8 400	
	889 385	889 385

Additional information

1 Inventory on 30 June 2015 was valued at $29 400.

2 Depreciation is to be charged as follows:

Warehouse buildings	4% using straight line method
Motor vehicles	25% using straight line method
Office equipment	10% using reducing balance method.

3 The provision for doubtful debts is to be maintained at 5% of the trade receivables.

4 An irrecoverable debt of $200 should be written off.

5 The directors have decided to transfer $25 000 to the general reserve.

6 The directors have proposed a final dividend of $0.07 per share.

7 The debentures were issued in 2011.

8 The motor vehicles were used by the sales team.

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REQUIRED

(a) Prepare the income statement for the year ended 30 June 2015.

[10]

(b) Prepare the statement of financial position at 30 June 2015.

[8]

(c) Explain the importance to a business of the current ratio.

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Additional information

The directors of Seema Limited have calculated the current ratio to be 8.87 : 1.
They regard the ratio calculated to be too high and are considering repaying the debentures.

REQUIRED

(d) Discuss the effect of this course of action on:

(i) working capital

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(ii) the return on capital employed

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(e) Advise the directors on whether they should repay the debentures early. Justify your answer.

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[Total: 30]

2 James and Lewis have been in partnership for some years sharing profits and losses equally. They had no partnership agreement. Their statement of financial position at 30 September 2015 showed the following information.

			$
Non-current assets			230 000
Net current assets			60 000
			290 000
Capital accounts			
James			200 000
Lewis			70 000
			270 000
Current accounts			
	James	Lewis	
	$	$	
Opening balance	31 000	17 000	
Share of profit	15 000	15 000	
Drawings	(21 000)	(37 000)	
Closing balance	25 000	(5 000)	20 000
			290 000

Additional information

On 1 October 2015 Ahmed joined the partnership. A partnership agreement was drawn up. The terms set out in the agreement were:

1 Profits and losses are to be shared equally.

2 Interest is to be charged at 5% on drawings.

3 Interest is to be allowed at 10% on capital.

The following also took place:

1 Ahmed introduced capital of $80 000, which he paid into the business bank account.

2 Goodwill was valued at $60 000 but no goodwill account is to be maintained in the books of account.

3 Non-current assets were revalued at $270 000.

4 The inventory value was to be reduced by $4000.

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REQUIRED

(a) Prepare the revaluation account.

[3]

(b) Prepare the capital accounts of the partners to record the admission of Ahmed.

[4]

(c) **S**tate the advantages of interest on capital and interest on drawings.

(i) Advantage of interest on capital

to the partners

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to the partnership

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[2]

(ii) Advantage of interest on drawings

to the partners

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to the partnership

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[2]

(d) Explain how the terms of the partnership agreement will affect James and Lewis.

(i) James

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(ii) Lewis

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[Total: 15]

3 The equity and reserves section of Howard Limited's statement of financial position at 31 December 2014 was as follows:

	$000
Ordinary shares of $0.50 each	1400
Share premium	260
Retained earnings	195
	1855

During the year ended 31 December 2015, the following transactions took place:

February 1	Issued 200 000 ordinary shares at $0.70 each.
May 1	Paid final dividend of $0.04 per ordinary share on all shares in issue at 31 December 2014.
June 1	Made a bonus issue of ordinary shares on the basis of two ordinary shares for every fifteen ordinary shares held at that date.

REQUIRED

(a) State the double entry to record **each** of these transactions. Dates and narratives are **not** required.

Name of the account	Dr $000	Cr $000

[6]

Additional information

On 1 August 2015, Howard Limited also made a rights issue of one ordinary share for every ten ordinary shares held at a price of $0.60. All shareholders took up their rights.

REQUIRED

(b) Prepare a schedule showing the movement in the share premium account during the year ended 31 December 2015.

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(c) State **three** reasons why a company may make a bonus issue of shares.

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(d) State **three** differences between ordinary shares and preference shares.

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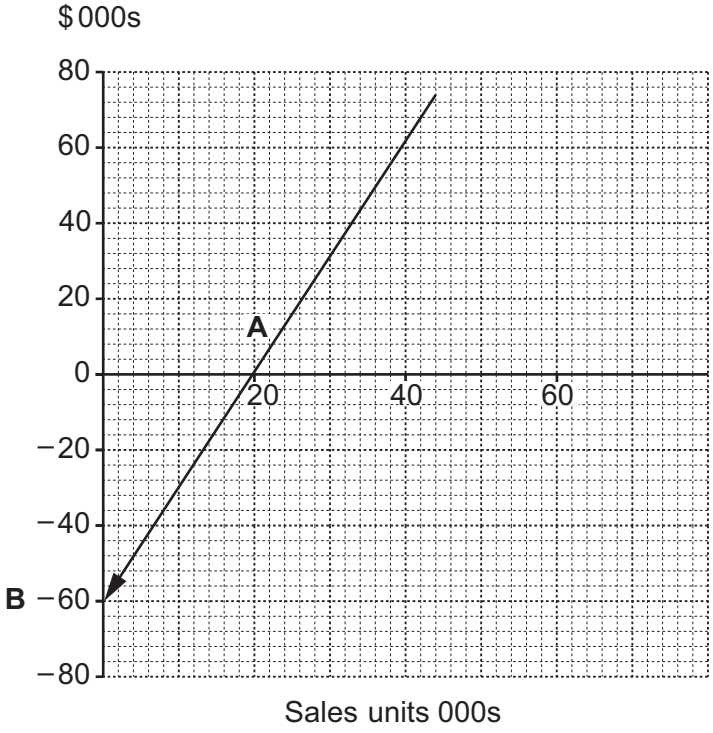
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[Total: 15]

4 Lin, a manufacturer, makes three products: X, Y and Z. He uses cost-volume-profit (CVP) analysis in his business.
He has prepared the following profit/volume (P / V) chart for product X for the year ending 31 December 2016.



REQUIRED

(a) Identify from the P / V chart for the year ending 31 December 2016:

(i) what point A 20 000 represents

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(ii) what point B ($60 000) represents

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(b) State what is meant by P / V ratio.

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(c) State **two** benefits and **two** drawbacks of CVP analysis.

Benefits

1 .....

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2 .....

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Drawbacks

1 .....

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[4]

Additional information

Lin has provided you with the following budgeted information for the year ending 31 December 2016.

	X	Y	Z
Annual sales (units)	15 000	5 000	8 000
	$	$	$
Selling price (per unit)	8	10	7
Variable cost (per unit)	5	4	2
Annual allocated fixed costs	60 000	25 000	30 000

Lin is considering stopping production of X.

REQUIRED

(d) Calculate for the year ending 31 December 2016:

(i) the total contribution for each product

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(ii) the total profit or loss for each product

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(e) Discuss whether or not Lin should continue to produce all three products. Justify your answer.

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Additional information

Since preparing his budget, Lin has received two separate orders.

For order 1 the customer has offered an amount in total of $10 000.
For order 2 the customer has offered a price per unit for each separate product.

The details are as follows:

Order 1

	units
X	1000
Y	1000
Z	1000

Proposed total order price $10 000

Order 2

	units	proposed price per unit $
X	1000	6
Y	1000	5
Z	1000	4

Lin has spare production capacity and the fixed costs will not be affected by the orders.

REQUIRED

(f) Calculate the contribution gained or lost on **each** order.

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(g) Advise Lin whether or not **each** of the orders should be accepted. Justify your decision.

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(h) Explain, giving **two** reasons, why a business needs to plan for the future.

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[Total: 30]

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