Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

1015996222

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2017**

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 **16** printed pages and **4** blank pages.

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1 B Limited is a private limited company trading as a wholesaler of garden equipment. The draft trial balance at 30 June 2016 has been extracted from the books of account and is shown below.

	Debit $	Credit $
Bank loan		26 400
Bank		14 040
Cash	650	
Directors' remuneration	53 200	
Fixtures and fittings		
Cost	18 110	
Provision for depreciation at 1 July 2015		5 310
Land and buildings		
Cost	135 000	
Provision for depreciation at 1 July 2015		21 840
Motor vehicles		
Cost	41 600	
Provision for depreciation at 1 July 2015		19 200
Interest paid	5 920	
Inventory at 1 July 2015	62 400	
Office costs	18 330	
Property costs	21 940	
Purchases	268 200	
Retained earnings		30 570
Revenue		563 800
Selling and distribution costs	36 120	
Share capital (ordinary shares of $1 each)		60 000
Trade payables		39 810
Trade receivables	71 000	
Wages and salaries	48 500	
	780 970	780 970

Additional information

1 The value of inventory at 30 June 2016 was $70 300 at cost.

2 Land and buildings at 30 June 2016 were as follows:

	$
Land	70 000
Buildings	65 000

3 Depreciation is to be provided as follows:

Asset	Annual Rate	Method	Charge to
Fixtures and fittings	15%	Reducing balance	Office costs
Buildings	2%	Straight-line	Property costs
Motor vehicles	25%	Reducing balance	Selling and distribution costs

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4 Wages and salaries are to be charged as follows:

Selling and distribution costs	60%
Office costs	40%

5 B Limited took out a 5% debenture (repayable between 2021 and 2025) for $50 000 on 30 June 2016 and repaid the bank loan in full. Neither of these transactions has yet been recorded in the books of account.

6 A prepayment of $1240 is to be accounted for on property costs at 30 June 2016.

7 An accrual of $2680 is to be accounted for on selling and distribution costs at 30 June 2016.

8 The directors require a provision for doubtful debts to be created representing 2% of trade receivables at 30 June 2016, to be charged to office costs.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2016. Use the space on the next page for your workings.

B Limited
Income Statement for the year ended 30 June 2016

	$	$
Revenue		
Cost of sales		
Opening inventory		
Purchases		
Closing inventory		
Gross profit		
Deduct: expenses		
Directors' remuneration		
Office costs		
Property costs		
Selling and distribution costs		
Profit from operations		
Finance costs		
Profit for the year		

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Use this space for your workings.

[17]

(b) Prepare an extract showing the current assets section of the statement of financial position at 30 June 2016.

B Limited
Extract from Statement of Financial Position at 30 June 2016

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[5]

(c) Explain why a company should provide for depreciation on its non-current assets.

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(d) Explain **two** differences between ordinary shares and preference shares.

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[Total: 30]

2 Wiggins has provided the following summary financial information for the year ended 30 April 2017:

	$
Bank overdraft	19 000
Cash in hand	1 725
Inventory at 1 May 2016	?
Inventory at 30 April 2017	152 000
Purchases	860 000
Revenue	1 042 500
Trade receivables	31 275

Additional information

1 40% of sales are on a cash basis. All remaining sales are on a credit basis.

2 All purchases are on credit.

3 The gross margin on all sales was 20%.

4 The trade payables turnover (days) for the year ended 30 April 2017 was 54.75 days (to two decimal places).

REQUIRED

(a) State **two** limitations of using ratio analysis to analyse the performance of a business.

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(b) Calculate the current ratio to **two** decimal places.

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(c) Calculate the liquid (acid test) ratio to **two** decimal places.

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(d) Calculate the rate of inventory turnover (times).

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Additional information

Wiggins wishes to expand his business by taking a bank loan of $30 000 repayable over five years.

REQUIRED

(e) Advise Wiggins whether or not he should take the loan. Justify your answer.

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[Total: 15]

3 Amit, Wang and Susi have been trading in partnership for several years and prepare their financial statements annually to 31 March. They have never had a partnership agreement.

REQUIRED

(a) State **four** provisions which would apply in the absence of a partnership agreement.

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[4]

Question 3(b) is on the next page.

Additional information

The statement of financial position for the partnership at 31 March 2016 was as follows:

Amit, Wang and Susi
Statement of Financial Position at 31 March 2016

	$
Assets	
Non-current assets	
Freehold premises	109 000
Fixtures and fittings	64 900
	173 900
Current assets	
Trade receivables	14 500
Bank account	5 600
	20 100
Total assets	194 000
Capital and liabilities	
Capital accounts	
Amit	40 000
Wang	40 000
Susi	40 000
	120 000
Current accounts	
Amit	27 600
Wang	18 500
Susi	22 200
	68 300
Current liabilities	
Trade payables	5 100
Other payables	600
	5 700
Total capital and liabilities	194 000

On 1 April 2016 Amit retired from the partnership and the following was agreed:

1 Goodwill was valued at $42 000. A goodwill account is not to be maintained in the books of account.

2 Assets were revalued at the following amounts:

	$
Freehold premises	120 000
Fixtures and fittings	62 200
Trade receivables	13 700

3 Amit received $15 000 from the partnership bank account. The remaining balance owed to him was left as an interest-free loan to the partnership to be repaid by 31 March 2021.

4 Wang and Susi agreed to continue in partnership and to share profits and losses equally.

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REQUIRED

(b) Prepare the partners' capital accounts to record the retirement of Amit from the partnership.

Amit, Wang and Susi
Capital accounts

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Additional information

Amit has recently advised the partners that he is having financial difficulties. He has asked Wang and Susi for the payment of the balance on his loan account as soon as possible.

REQUIRED

(c) Advise Wang and Susi whether or not they should agree to Amit's request. Justify your answer.

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[Total: 15]

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4 FPL Limited manufactures one type of product. Their sales staff receive 10% commission on the selling price.

The following information was available for the quarter ended 30 September 2016:

	$
Sales (58 000 units)	203 000
Direct materials	48 140
Direct labour	38 860
Variable production overheads	23 200
Fixed production overheads	20 450
Fixed administration overheads	32 250
Selling expenses	35 900

Selling expenses include the sales commission, but all other selling expenses are fixed.

REQUIRED

(a) Prepare a marginal cost income statement for the quarter ended 30 September 2016.

[4]

(b) Calculate the break-even point in units for the quarter.

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Additional information

The directors' target profit is $20 000 per quarter. They were concerned that the profit for the quarter ended 30 September 2016 was below the target profit.

The directors realised that action must be taken in order to increase the profit.

In order to improve the profits they are considering two proposals.

Proposal A

1 Retain the current selling price.

2 Reduce the number of employees in administrative staff, saving $48 000 per annum.

3 Source less expensive materials to reduce direct material cost by $0.10 per unit.

4 Reduce the sales commission by 2%.

Proposal B

1 Improve the product and increase the selling price by 10%. This will increase the direct material cost by $0.15 per unit.

2 Spend $5000 per quarter on advertising to raise awareness of the improved product.

3 Reduce the numbers of administrative staff, saving $48 000 per annum.

4 Retain the sales commission at 10%.

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REQUIRED

(c) Calculate the number of **units** required to be sold **per quarter** to achieve a profit of $20 000 for:

(i) Proposal A

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(ii) Proposal B

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(d) Recommend to the directors which proposal they should adopt. Justify your answer by discussing the benefits and drawbacks of **each** proposal.

Recommendation .....

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Proposal A

Benefits .....

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Drawbacks .....

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Proposal B

Benefits .....

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Drawbacks .....

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[8]

(e) State **three** advantages and **three** disadvantages of a system of budget preparation.

Advantages

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Disadvantages

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[6]

[Total: 30]

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