Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

3467548716

ACCOUNTING **9706/23**

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 **14** printed pages and **2** blank pages.

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[Turn over

1 Ramadhin, Statham and Trueman formed a partnership on 1 January 2016.

The draft profit for the year ended 31 December 2016 before appropriation was $232 000, but did not account for the following:

1 A non-current asset costing $20 000 was purchased on 1 July 2016. No depreciation has been charged on this asset.

The partnership's policy is to charge depreciation at 20% using the reducing balance method on all assets.

A full year's depreciation is charged in the year of purchase and none in the year of disposal.

2 Some inventory which had been valued at a cost of $15 000 had been damaged. The mark-up on inventory is 100%. The damaged inventory could only be sold for 20% of the normal selling price.

REQUIRED

(a) Calculate the **adjusted** profit for the year ended 31 December 2016 before appropriation.

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Additional information

On 1 January 2016 Ramadhin, Statham and Trueman had introduced capital of $600 000 in their agreed profit and loss sharing ratio of 3 : 2 : 1 respectively.

The other terms of the partnership agreement were as follows:

1 Interest of 6% per annum is to be paid on the opening capital account balances.

2 Each partner is to take drawings of $10 000 per annum. Interest is to be charged on total annual drawings at 4% per annum.

3 Trueman is to receive a salary of $1000 per month.

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REQUIRED

(b) Prepare the partnership appropriation account for the year ended 31 December 2016.

[6]

(c) Explain why partners may value goodwill and revalue the assets when one partner retires.

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Additional information

Trueman received an offer of employment which would provide him with a gross annual income of $50 000. He decided to accept the offer and leave the partnership on 31 December 2016.

At that date goodwill was valued at $12 000.

It was also agreed that the partnership assets should be revalued at $7500 less than their net book values.

Trueman agreed to leave 40% of the balance due to him as a loan to the partnership at an interest rate of 10% per annum. The remainder was paid to him from the business bank account.

REQUIRED

(d) Prepare a statement showing the amount that Trueman received on leaving the partnership.

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(e) Assess whether or not Trueman was correct in his decision to leave the partnership. Justify your answer by discussing the financial and non-financial factors involved.

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[5]

Additional information

Trueman asks Ramadhin and Statham for an early repayment of his loan to the partnership.

REQUIRED

(f) Advise the partners whether or not they should make an early repayment. Justify your answer.

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[4]

[Total: 30]

2 The following is an extract from the statement of financial position of WX Limited at 1 March 2016:

Equity	$
Ordinary share capital ($0.50 each)	150 000
Share premium account	60 000
Retained earnings	40 000

The following additional information is available:

1 On 30 April 2016, the non-current assets were revalued from their net book value of $175 000 to $225 000.

2 On 30 June 2016, a bonus issue was made on the basis of three ordinary shares for every ten held. Reserves were kept in the most distributable form.

3 On 30 September 2016, a rights issue was offered on the basis of one ordinary share for every eight held. The ordinary shares were offered at a price of $0.80 per share and the issue was fully subscribed.

4 On 31 December 2016, the company paid a dividend of $0.04 on all shares in issue at that date.

5 Profit for the year ended 28 February 2017 was $50 500.

REQUIRED

(a) Prepare a statement of changes in equity for the year ended 28 February 2017 (A total column is **not** required.)

WX Limited
Statement of Changes in Equity for the year ended 28 February 2017

	Share capital	Share premium	Retained earnings	Revaluation reserve
	$	$	$	$

Use this space for your workings.

[11]

(b) State **three** advantages and **one** disadvantage to a limited company of making a bonus issue of shares.

Advantages

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Disadvantage

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[Total: 15]

3 Stapleton provided the following information for the year ended 30 April 2016:

	$
Opening inventory	25 200
Gross profit	37 150

Additional information

1 All goods were sold to achieve a 20% gross margin.

2 Cash sales were $18 575. All other sales were on a credit basis.

3 All purchases were on a credit basis.

4 Trade receivables at 30 April 2016 were $16 500.

5 Trade payables at 30 April 2016 were $9500.

6 Inventory turnover was 5 times per annum.

REQUIRED

(a) Calculate the trade receivables turnover (days). State the formula used.

Formula .....

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Calculation .....

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(b) Calculate closing inventory.

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(c) Calculate the trade payables turnover (days). State the formula used.

Formula .....

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Calculation .....

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(d) State **three** uses of ratio analysis to a trader.

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[Total: 15]

4 Y Limited manufactures three products, Exe, Wye and Zed. The following budgeted information is available for the month of July 2017:

Per unit	Exe	Wye	Zed
Selling price	$96.00	$128.00	$140.00
Direct material at $4 per kilo	7 kilos	9 kilos	15 kilos
Direct labour at $8 per hour	3 hours	4 hours	4 hours
Machine hours	1.00	2.50	5.00
Variable overhead	$2.40	$3.20	$3.20
Fixed overhead	$10.00	$25.00	$50.00
Maximum monthly demand	100 units	120 units	60 units

Fixed overheads are forecast to be $7000 per month.

Y Limited has enough resources and capacity to meet the maximum monthly demand.

REQUIRED

(a) Calculate the contribution per unit for **each** product.

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(b) Prepare a statement to show the maximum contribution **and** maximum profit that Y Limited can earn for the month of July 2017.

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(c) Calculate the **total** machine hours required to meet maximum demand for the month of July 2017.

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Additional information

Due to a machine breakdown, only 500 machine hours will be available for July 2017 production.

REQUIRED

(d) Calculate the maximum contribution **and** the maximum profit for the month of July 2017, taking into account the limited machine hours available.

[10]

Additional information

The directors of Y Limited have been told that they could hire a replacement machine for the month of July 2017 at a cost of $2500.

REQUIRED

(e) Advise the directors whether or not they should hire the replacement machine. Justify your answer by considering **both** advantages and disadvantages of hiring the replacement machine.

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(f) State **three** short-term decisions, other than limiting factor decisions, where marginal costing would be useful.

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Additional information

The following information is available for another division of Y Limited. The division operates a system of absorption costing with two production departments.

	Department 1	Department 2
Budgeted overheads	$560 000	$304 000
Actual overheads	$533 000	$294 000
Budgeted labour hours	140 000 hrs	46 000 hrs
Actual labour hours	124 000 hrs	54 000 hrs
Budgeted machine hours	27 000 hrs	160 000 hrs
Actual machine hours	33 000 hrs	151 000 hrs

REQUIRED

(g) Calculate to **two** decimal places an appropriate overhead absorption rate for **each** department.

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(h) Calculate the over absorption or under absorption of overheads for **each** department.

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[Total: 30]

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