Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

9611851501 9

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 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.

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[Turn over

1 Suyin owns a small retail business. She has not maintained full accounting records.

REQUIRED

(a) State **two** reasons why the owner of a small business may decide not to maintain full accounting records.

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2 .....

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[2]

Additional information

Suyin has been informed that the accounting concepts of matching and prudence must be followed when preparing financial statements.

REQUIRED

(b) Explain how these accounting concepts are applied when a business prepares financial statements.

Matching

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Prudence

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[4]

Additional information

Suyin has provided the following information.

1 On 1 August 2019 the business's assets and liabilities included:

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Fittings and equipment at valuation	18 500
Inventory	11 440
Other payables: shop rent	510
Other receivables: insurance	290
Trade payables	3 970

2 Summary of bank statements for the year ended 31 July 2020.

	$
Receipts	
Cash sales banked	79 480
Proceeds from the sale of equipment (net book value $490)	550
Payments	
Drawings	24 070
Shop rent	3 580
General expenses	16 810
Carriage inwards	610
Insurance	2 950
Trade payables (after deducting 2.5% cash discounts)	46 800

3 Cash account for the year ended 31 July 2020.

	$		$
Balance b/d	420	Bank	79 480
Cash sales	96 000	Wages	15 430
		Purchases	1 320
		Balance c/d	190
	96 420		96 420
Balance b/d	190		

4 During the year ended 31 July 2020

Goods had been returned to suppliers, $1280.
All sales were made on a cash basis.

5 At 31 July 2020

Suppliers were owed $4560.
Inventory was valued at $18720.
Fittings and equipment was valued at $15 860.

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REQUIRED

(c) Calculate **total** purchases for the year ended 31 July 2020.

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..... [5]

(d) Prepare the income statement for the year ended 31 July 2020.

Workings:

Suyin
Income statement for the year ended 31 July 2020

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[10]

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[Turn over

Additional information

Suyin has the opportunity to move her business to a busier location. The following information is available.

1 The rent of the new shop premises will be three times the current annual charge.

2 Annual sales could be increased by 10% on the figure for the year ended 31 July 2020.

3 She intends to achieve a gross margin of 60%.

4 She will need to apply for a bank loan of $16 000 at 8% per annum interest to cover the costs of changing location. The loan will be repayable over a two-year period.

5 Discounts received will no longer be available.

6 All other expenses will remain unchanged and there will be no sources of additional income.

REQUIRED

(e) Calculate how much profit per annum will be made if Suyin moves her business to the new location.

	$
Revised gross profit	
Revised profit for the year	

[4]

(f) Advise Suyin whether or not she should change her business's location. Justify your answer considering **both** financial and non-financial factors.

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..... [5]

[Total: 30]

2 Karis and Lara are in partnership.

(a) State **two** reasons why partners may each have a separate capital account and current account.

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2 .....

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[2]

Additional information

Karis and Lara share profits and losses in the ratio 3:2 respectively.

They decided to admit Megan as a partner on 1 February 2021.

On that date the statement of financial position was as follows.

Assets	$	$
Non-current assets at net book value		
Motor vehicles	43 500	
Furniture and equipment	16 200	
		59 700
Current assets		
Trade receivables		18 410
Total assets		78 110
Capital and liabilities		
Capital accounts		
Karis	35 700	
Lara	24 500	
		60 200
Current accounts		
Karis	3 110	
Lara	(540)	
		2 570
Current liabilities		
Trade payables	11 230	
Bank overdraft	4 110	
		15 340
Total capital and liabilities		78 110

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The partners agreed the following on Megan's admission.

1 Current accounts would no longer be used.

2 Karis took over a motor vehicle for private use with a net book value of $18 400 at an agreed value of $15 000.

3 Goodwill was valued at $48 000. No goodwill account was to be maintained in the partnership's books of account.

4 Profits and losses are to be shared in the ratio Karis : Lara : Megan 7 : 5 : 3 respectively.

5 Megan introduced a motor vehicle valued at $23 000 as part of her capital contribution.

After making the adjustments, it was agreed that Megan should pay sufficient cash into the business bank account to make her total capital equal to that of Lara.

REQUIRED

(b) Prepare, on the **next page**, the capital accounts of the partners to record the admission of Megan as a partner.

Capital accounts

	Karis	Lara	Megan		Karis	Lara	Megan
	$	$	$		$	$	$

[8]

Additional information

In the new partnership agreement Lara is to receive a salary of $12 000 per annum.

Megan is hoping to achieve a 25% return on her capital employed (ROCE).

REQUIRED

(c) Calculate the minimum profit the partnership must make in order for Megan to achieve this ROCE.

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..... [3]

(d) State **two** possible disadvantages to existing partners of admitting a new partner.

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2 .....

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[2]

[Total: 15]

3 C Limited's statement of financial position at 31 December 2020 is shown with comparative figures at 31 December 2019.

	At 31 December	
	2020	**2019**
	$000	$000
Assets		
Non-current assets	2621	2217
Current assets		
Inventory	61	47
Trade and other receivables	29	38
Cash and cash equivalents	2	31
	92	116
Total assets	2713	2333
Equity and liabilities		
Equity		
Ordinary shares	1800	1200
Share premium	-	220
Retained earnings	401	624
Revaluation reserve	300	-
Total equity	2501	2044
Non-current liabilities		
8% Debentures (2025)	160	250
Current liabilities		
Trade and other payables	52	39
Total equity and liabilities	2713	2333

The following information is also available.

1 The company's issued capital consists of ordinary shares of $0.25 each.

2 On 1 January 2020 the directors revalued the property upwards by $300 000.

3 There were no purchases or disposals of non-current assets during the year.

4 On 1 July 2020 the directors made a bonus issue of ordinary shares.

5 There were no other changes in share capital during the year.

REQUIRED

(a) Explain **two** reasons for making a bonus issue of shares.

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[4]

(b) Calculate the number of bonus shares issued on 1 July 2020.

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(c) Prepare the journal entry recording the bonus issue on 1 July 2020. A narrative **is** required.

Journal

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	$000	$000

[4]

(d) Identify **three** factors that directors of a company should consider when deciding on the amount of a proposed dividend.

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[3]

Additional information

The directors of C Limited wish to propose a dividend of $0.01 per share on all shares in issue at 31 December 2020.

REQUIRED

(e) Calculate the amount of the proposed dividend.

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..... [2]

[Total: 15]

4 P Limited is a manufacturing business.

REQUIRED

(a) Define the following terms:

(i) Direct costs

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..... [1]

(ii) Stepped costs

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..... [2]

(b) State the formula for finding the margin of safety in units.

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..... [1]

(c) Explain the term 'limiting factor' when using marginal costing.

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..... [2]

Additional information

P Limited manufactures a single product. The factory has the capacity to make 40 000 units per month. All production is sold.

The following budgeted information is available for December 2021.

Sales	30 000 units at $48 per unit
Direct materials per unit	4.5 m at $4 per metre
Direct labour per unit	3 hours at $8.50 per labour hour
Fixed costs	$112 000

The company has a target profit of $40 000 per month.

REQUIRED

(d) Calculate the number of units to be sold for the company to achieve its target profit for December 2021.

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(e) Prepare a budgeted marginal cost statement for December 2021.

Budgeted marginal cost statement for December 2021

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Additional information

The directors have been told that demand for their product is likely to fall in future months. They are considering two proposals: Proposal A and Proposal B.

Proposal A

Produce a superior version of the product.

Sales	27 000 units per month at $57 per unit.
Direct materials	The same quantity of material per unit as currently used, but the price per metre would increase by 7.5%.
Direct labour	The rate would increase to $9.25 per hour and each unit would take 3.4 hours to make.
Additional fixed costs	Extra machinery costing $75 000 will be required. Machinery is depreciated at 20% per annum using the straight-line method. A loan would be required to finance the full cost of the machinery. Interest rates are currently 8% per annum.

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REQUIRED

(f) Calculate the monthly profit to be made from proposal A.

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Additional information

Proposal B

The directors are also considering a proposal to produce a simpler version of the product with a selling price of $37 per unit. This proposal would require 76 000 labour hours per month. They estimate that 38 000 units per month could be sold.

This will produce a monthly profit of $49 500.

REQUIRED

(g) Advise the directors which proposal they should choose. Justify your choice by considering **both** financial and non-financial factors.

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[Total: 30]

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