Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

9615015035

ACCOUNTING **9706/23**

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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1 Adam owns a retail business. He is aware that he must follow certain accounting concepts when preparing his business's financial statements.

REQUIRED

(a) Explain how each of the following concepts is applied when preparing a business's financial statements.

(i) Consistency

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(ii) Realisation

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(iii) Materiality

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Additional information

Adam has completed the trading section of the income statement. However, some errors had been made.

Income statement for the year ended 31 December 2020

	$	$
Revenue		186 500
Less returns outwards		(3 180)
		183 320
Opening inventory	14 830	
Purchases	93 710	
Less returns inwards	(2 940)	
Add carriage inwards	730	
	106 330	
Less closing inventory	(12 670)	
Cost of sales		93 660
Gross profit		89 660

The following information is also available.

1 No record had been made of goods taken for own use by Adam, $580.

2 Closing inventory included 14 damaged items which cost $30 each. Six of these items cannot be sold and are to be regarded as waste. The remaining items could be sold for $35 each but will incur total repairs cost of $56.

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[Turn over

REQUIRED

(b) Calculate a revised figure for gross profit for the year ended 31 December 2020.

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Additional information

The following balances were extracted from the books of account of Adam's business on 31 December 2020.

	$	
Discounts	1 580	credit
Furniture and equipment		
cost	18 220	
provision for depreciation (at 1 January 2020)	5 370	
Marketing expenses	4 850	
Motor vehicle		
cost	16 800	
provision for depreciation (at 1 January 2020)	13 900	
Office expenses	2 950	
Premises		
cost	160 000	
provision for depreciation (at 1 January 2020)	9 600	
Provision for doubtful debts (at 1 January 2020)	530	
Rent receivable	6 640	
Repairs and maintenance	1 970	
Trade receivables	9 800	
Wages and salaries	31 280	

The following information is also available.

1 Repairs and maintenance included a payment of $380 for installation of new equipment on 1 January 2020.

2 The provision for doubtful debts should be maintained at 5% of trade receivables.

3 Rent receivable of $1800 for the three months ended 28 February 2021 had not been received.

4 A payment of $2000 for a five-month advertising campaign which began on 1 November 2020 was outstanding.

5 Depreciation should be provided on non-current assets as follows:
Furniture and equipment at 20% per annum using the reducing balance method
Premises at 2% per annum using the straight-line method
No depreciation is charged on non-current assets in the year of sale.

6 No record had been made of the sale of the only motor vehicle on 1 December 2020 for $1350.

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[Turn over

REQUIRED

(c) Prepare the income statement for the year ended 31 December 2020. Start the statement with your gross profit figure in part **(b)**.

Income statement for the year ended 31 December 2020

	$	$
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[10]

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Additional information

Adam would like to improve his business's profitability. He has been considering the following proposals.

Proposal 1: Reducing inventory levels
Proposal 2: Increasing mark-up by 5% on the current level

REQUIRED

(d) Advise Adam which proposal he should choose. Justify your answer by considering **both** proposals.

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[7]

[Total: 30]

2 Hamid prepares control accounts to check the accuracy of his business's purchases and sales ledgers.

REQUIRED

(a) Explain **two** benefits to a business of using control accounts other than checking the arithmetical accuracy of ledger accounts.

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[4]

Additional information

On 31 January 2021 Hamid provided the following information:

1 The balance of the sales ledger control account on 1 January 2021 was $17 820.

2 Totals for January 2021 from books of prime entry

	$
Cash book	
Discount allowed	430
Receipts from trade receivables	16 230
General journal	
Contra entries with purchases ledger	890
Sales journal	18 440
Sales returns journal	310

3 On 31 January 2021 a credit customer had overpaid his account by $170.

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REQUIRED

(b) Prepare the sales ledger control account for January 2021.

Sales ledger control account

	$		$

[6]

Additional information

On 31 January 2021 the total of balances in the purchases ledger was $12 860, but the balance of the purchases ledger control account on this date was $12 980.

The following errors were discovered.

1 The total of the discounts received column of $110 had not been posted from the cash book.

2 The total of the purchases returns journal had been overstated by $250.

3 Interest of $130 charged by a supplier because of an overdue balance had been debited to the supplier's account.

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REQUIRED

(c) Prepare statements to show corrected totals for:

(i) the purchases ledger balances

Correction of purchases ledger balances

Details	$
Incorrect total	12 860

[2]

(ii) the purchases ledger control account balance

Correction of purchases ledger control account balance

Details	$
Incorrect balance	12 980

[3]

[Total: 15]

3 Cherry, Winston and Yupar were in partnership sharing profits and losses in the ratio 3 : 5 : 2. The partners decided to dissolve their partnership on 1 December 2020. On this date the partnership's statement of financial position was as follows.

Assets	$	$
Non-current assets at net book value		
Premises	97 000	
Furniture and equipment	22 000	
		119 000
Current assets		
Inventory		17 400
Total assets		136 400
Capital and liabilities		
Capital accounts		
Cherry	18 300	
Winston	54 900	
Yupar	26 700	
		99 900
Current accounts		
Cherry	(5 740)	
Winston	2 290	
Yupar	820	
		(2 630)
Non-current liability		
Loan from Yupar		18 000
Current liabilities		
Trade payables	14 800	
Bank overdraft	6 330	
		21 130
Total capital and liabilities		136 400

The following information is also available.

1 Winston took over the equipment at a valuation of $7200.

2 Premises and furniture were sold for $61 100 and a cheque for this amount was received.

3 Inventory was sold at a loss of $5200. A cheque was received for the amount.

4 Trade payables were settled in full by cheque after deducting a 5% cash discount.

5 The expenses of dissolution were paid by cheque, $2140.

6 The amounts owed by, or to, the partners were settled by cheque.

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REQUIRED

(a) Prepare the realisation account to show the profit or loss made on the dissolution of the partnership.

Realisation account

	$		$

[7]

(b) Prepare, on the **next page**, the capital accounts of the partners recording the dissolution and final settlement of the amounts owed to, or by, each partner.

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Capital accounts

	Cherry	Winston	Yupar		Cherry	Winston	Yupar
	$	$	$		$	$	$

[5]

Additional information

The partners had decided to dissolve their partnership because of disagreements on important decisions.

REQUIRED

(c) State **three** other reasons why a partnership might be dissolved.

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3 .....

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[3]

[Total: 15]

4 T Limited manufactures a single product. The following budgeted information is available.

	Per unit $
Direct materials	8.40
Direct labour	14.50
Other variable costs	2.30
Fixed costs	8.00

Each unit is sold for $36. Budgeted monthly production and sales are 1200 units.

REQUIRED

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

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(b) Calculate the margin of safety:

(i) in units

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..... [1]

(ii) in revenue

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..... [1]

(c) Identify **three** assumptions made when using break-even analysis.

1 .....

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[3]

Additional information

In January 2021 the company made and sold 1120 units.

REQUIRED

(d) (i) Calculate the contribution to sales ratio.

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(ii) Calculate the profit made in January 2021.

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Additional information

In March 2021 a machine fault meant that only 75% of budgeted output could be produced. The directors considered two options.

Option A

1 Reduce normal output by 25%; as a result, materials cost would be affected because trade discount of 20% on bulk orders would not be available. All other costs would remain the same.

2 Buy in units from a competitor at $27.20 per unit. The competitor can supply a maximum of 250 units and will charge $125 for delivering this quantity.

Option B

1 Hire a replacement machine at a cost of $1600 for the month.

2 The replacement machine could make an additional 200 units per month.

3 All other costs would remain the same.

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REQUIRED

(e) Calculate the profit for March 2021 for:

(i) Option A

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(ii) Option B

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(f) Advise the directors which option they should choose. Justify your advice by considering **both** options.

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Additional information

Recently a system of budgetary control has been introduced by T Limited. However, there have been concerns that the system has not worked well.

REQUIRED

(g) State **three** limitations of budgetary control.

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[3]

[Total: 30]

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