Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

0916173703

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 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 **14** printed pages and **2** blank pages.

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1 Alan and Jack have been in partnership for several years, sharing profits and losses equally. They prepare their financial statements annually to 30 September.

On 30 September 2014 the balances on their capital accounts were Alan $139 800 and Jack $128 000.

On 1 October 2014 the following took place:

1 Max joined the partnership. He paid $27 000 into the partnership bank account and introduced inventory valued at $5000.

2 Alan transferred $15 000 from his capital account into a loan account. Interest on the loan is to be paid at 10% per annum. The loan is repayable by 30 September 2020.

3 The partners agreed a value for goodwill of $40 000. No goodwill is to be recorded in the books.

4 Alan, Jack and Max are to share profits and losses in the ratio 2 : 2 : 1 respectively.

REQUIRED

(a) Prepare the capital accounts of the partners at 1 October 2014 taking the above into account.

Alan, Jack and Max
Capital accounts at 1 October 2014

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(b) (i) State what is meant by goodwill.

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(ii) State **three** factors which affect the value of goodwill.

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Additional information

The terms of the new partnership agreement included the following:

Interest on capital	7.5% per annum on capital account balances at the end of each financial year
Interest on drawings	3% on total drawings for the year
Salary to Max	$10 000 per annum

The following information is also available for the year ended 30 September 2015:

	Alan	Jack	Max
	$	$	$
Current account balances at 1 October 2014	9 500 Credit	7 500 Credit	Nil
Drawings for the year ended 30 September 2015	16 000	24 000	8 000

The residual profit to be shared by the partners in the profit sharing ratio is $90 000.

REQUIRED

(c) Prepare the partners' current accounts for the year ended 30 September 2015.

Alan, Jack and Max
Current accounts

[7]

(d) Calculate the profit for the year ended 30 September 2015 transferred from the income statement to the appropriation account.

[5]

Additional information

The partners have calculated the following ratios for the business:

	30 September 2014	30 September 2015
Liquid (acid test) ratio	1.1 : 1	0.85 : 1
Trade receivables turnover	34 days	42 days

REQUIRED

(e) (i) Comment on the changes in liquidity of the partnership from 30 September 2014 to 30 September 2015.

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(ii) Suggest ways in which the partnership liquidity may be improved.

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[Total: 30]

2 Raheem is a trader who makes all his sales on credit. He prepared the following sales ledger control account for the month of December 2015:

	$		$
Balance b/d	22 380	Sales returns journal	1 440
Sales journal	16 910	Bank	17 380
		Balance c/d	20 470
	39 290		39 290
Balance b/d	20 470		

Raheem extracted a list of customer account balances from the sales ledger at 31 December 2015 totaling $18 740. This did not agree with the balance on the control account.

The following errors were found:

1 A sales invoice for $960 had been correctly recorded in the sales journal, but had not been posted to the customer's ledger account.

2 A customer's irrecoverable debt of $250 had not been written off in any of Raheem's books of account.

3 A cheque received, $670, from a customer had been correctly recorded in the cash book. It had been entered on the debit side of the customer's ledger account as $760.

4 A cheque received, $200, from a customer had been returned unpaid by the customer's bank. No entry in respect of the returned cheque had been made in any of Raheem's books of account.

5 Discounts allowed of $830 had not been entered in the control account. They had been entered in the customers' ledger accounts.

6 A contra to the purchases ledger of $1370 had been entered in the customer's sales ledger account, but had not been included in the control account.

REQUIRED

(a) Prepare the updated sales ledger control account for the month of December 2015. Start your answer with the balance brought down of $20 470.

Sales ledger control account

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(b) Prepare a statement to reconcile the original total of sales ledger balances of $18 740 with the closing balance on the amended sales ledger control account.

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(c) State **three** advantages to a business of maintaining a sales ledger control account.

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(d) State **two** types of errors that will **not** be identified by producing a sales ledger control account.

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[Total: 15]

3 The following is an extract from the statement of financial position of Chopin Limited at 30 June 2015:

	$
Non-current assets	750 000
Ordinary shares of $0.25 each	300 000
Share premium	20 000
Retained earnings	635 210

During the year ended 30 June 2016, the following took place:

1 November 2015 — Non-current assets were revalued to $1 000 000.

1 January 2016 — A bonus issue of shares was made. The terms of the issue were 1 new share for every 10 shares in existence. Reserves were maintained in the most flexible form.

1 April 2016 — Dividend of $0.02 per share was paid.

Profit for the year ended 30 June 2016 was $230 809.

REQUIRED

(a) Prepare a statement of changes in equity for the year ended 30 June 2016.

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(b) Explain why the company should not use its revaluation reserve to pay dividends to shareholders.

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(c) State **two** uses of a share premium account.

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(d) State the difference between a bonus issue of shares and a rights issue of shares.

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[Total: 15]

4 Costello Limited is a manufacturing business that produces one product, a wooden bookcase. All production is sold to just one customer, Dando plc.

Costello Limited is contracted to produce 220 bookcases for the customer each week at a contract price of $30 per bookcase.

Employees are paid a fixed salary each week plus a bonus based on output.

The costs incurred by Costello Limited are as follows:

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Direct material cost	22.00 per unit
Production labour	
Salaries	345.00 per week
Bonus	0.50 per unit
Finishing labour	
Salaries	280.00 per week
Bonus	0.25 per unit
Machine hire	150.00 per week
Administration costs	500.00 per week
Property costs	260.00 per week

REQUIRED

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

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(b) Calculate the weekly margin of safety in **units** and in **revenue**.

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(c) Prepare an **annual** profit statement using marginal costing.

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Additional information

The directors of Costello Limited are concerned about the future prospects of the company. Employees have spare capacity and the machinery is not being fully utilised.

The company has been approached by a large retailer asking for a quotation to produce 100 bookcases each week. The retailer requires the bookcases to have a different finish that would add $2.25 to the direct material cost.

REQUIRED

(d) Calculate the selling price that the directors should charge the retailer in order to achieve a 20% contribution to sales ratio.

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Additional information

Having considered the situation, the directors have decided to quote a price of $29 per bookcase to the retailer. The additional work will involve employing one additional member of staff at a weekly salary of $140.
The contract with Dando plc to produce 220 bookcases per week would still be maintained at the price of $30 per bookcase.

REQUIRED

(e) Prepare a profit statement for Costello Limited to show the **total** annual contribution and **total** annual profit if the retailer accepts the quotation.

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(f) Advise the directors whether or not they should proceed with the additional order for the retailer. Give reasons for your answer.

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Additional information

Businesses may value inventory using different methods.

REQUIRED

(g) Explain **two** advantages and **one** disadvantage of using the AVCO method of inventory valuation.

Advantage 1 .....

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Advantage 2 .....

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Disadvantage .....

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[Total: 30]

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