Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

2295704957

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 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 **19** printed pages and **1** blank page.

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1 Huan owns a business selling electrical goods. He was unable to count his inventory at his year end of 31 March 2016. He counted his entire inventory on 6 April 2016, and valued it at cost, $57 760.

The following information is available:

1 Huan marks up the cost price of all goods by 25% to calculate the selling price.

2 Purchases of inventory between 1 April 2016 and 6 April 2016 amounted to $6100.

3 Sales between 1 April 2016 and 6 April 2016 amounted to $9600.

4 Goods with a selling price of $2100 had been sent to a customer on a sale or return basis on 30 March 2016. The goods had not been sold at 31 March 2016 and had not been included when the inventory was counted.

5 On 4 April 2016, a customer returned goods sold to him on 26 March 2016. The goods had a selling price of $650.

REQUIRED

(a) Prepare a statement to show Huan the value of inventory to include in the financial statements at 31 March 2016.

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Question 1(b) is on the next page.

Additional information

The following trial balance has been extracted from the books of account at 31 March 2016:

	Debit	Credit
	$	$
6% Bank loan (repayable 2019)		12 000
Advertising expenses	3 480	
Bank account		4 260
Capital account		145 190
Carriage outwards	810	
Discount allowed	1 250	
Drawings	32 700	
Fixtures and fittings – cost	68 100	
Fixtures and fittings – provision for depreciation		26 500
Insurance	1 090	
Interest paid	950	
Inventory at 1 April 2015	56 800	
Motor expenses	6 460	
Motor vehicles – cost	49 600	
Motor vehicles – provision for depreciation		18 800
Property rental	11 050	
Provision for doubtful debts at 1 April 2015		580
Purchases	239 470	
Returns outwards		410
Revenue		294 200
Other operating expenses	4 690	
Trade payables		21 660
Trade receivables	34 920	
Wages	12 230	
	523 600	523 600

The following information is also available:

1 Interest on the bank loan had been paid up to 31 December 2015.

2 Huan's depreciation policy is as follows:

Motor vehicles are to be depreciated at 25% per annum using the straight-line method. Depreciation is to be charged on a month-by-month basis.

Fixtures and fittings are to be depreciated at 15% per annum using the reducing balance method.

3 Huan sold a motor vehicle for $11 000 on 31 March 2016. The vehicle had cost $18 720 on 1 July 2014. No entries for this sale had been made in the books of account.

4 Property rental included a payment of $5850 covering the period 1 December 2015 to 31 August 2016.

5 Advertising expenses included a charge of $200 relating to advertising planned for September 2016.

6 A customer who had owed Huan $420 at the year end had been declared bankrupt.

7 Huan wishes to maintain a provision for doubtful debts of 2% of trade receivables.

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REQUIRED

(b) Prepare an income statement for Huan for the year ended 31 March 2016.

Huan
Income statement for the year ended 31 March 2016

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Additional information

All of Huan's sales and purchases are made on a credit basis. He feels that his accounting records could be improved by preparation of control accounts.

REQUIRED

(c) State **three** benefits and **one** limitation of preparing a sales ledger control account.

Benefits

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Limitation

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[4]

(d) Calculate the following ratios at 31 March 2016:

(i) operating expenses to revenue (to **two** decimal places) .....

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(ii) inventory turnover (days) .....

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Additional information

Huan's sister Carla operates a bakery business. Both operating expenses to revenue ratio and inventory turnover (days) ratio are lower for Carla's business.

REQUIRED

(e) Suggest **one** possible reason for the difference in **each** ratio:

(i) operating expenses to revenue .....

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(ii) inventory turnover (days) .....

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[Total: 30]

2 The directors of W Limited have provided the following balances at 1 August 2016:

	Cost	Accumulated depreciation	Net book value
	$	$	$
Motor vehicles	125 000	43 750	81 250

The company policy is to provide depreciation on motor vehicles at 20% per annum using the reducing balance method. Depreciation is charged on a month-by-month basis.

During the year ended 31 July 2017, the following transactions took place:

1 A motor vehicle was purchased on 31 January 2017 at a cost of $28 230.

2 A motor vehicle was sold on 28 February 2017 for $14 600. It had originally been purchased on 30 April 2015 at a cost of $19 500.

3 There were no other additions or disposals of motor vehicles during the year.

REQUIRED

(a) State the double entry required to record the disposal of a non-current asset **before** the profit or loss on disposal is transferred to the income statement (amounts are **not** required).

accounts to be debited	accounts to be credited

[6]

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(b) Prepare the provision for depreciation on motor vehicles account for W Limited for the year ended 31 July 2017 (dates are **not** required).

[7]

(c) Calculate the effect on profit for the year of **each** of transactions 1 and 2.

[2]

[Total: 15]

3 P Limited was formed on 1 June 2015. The company's share capital comprised of ordinary shares.

(a) (i) Identify **two** differences between ordinary shares and cumulative preference shares.

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(ii) State **three** differences between a rights issue and a bonus issue.

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Additional information

P Limited prepares financial statements to 31 May.

The following transactions, all of which were entered in the appropriate accounts in the ledger, occurred in relation to the ordinary shares.

2015	
1 June	100 000 ordinary shares, with a nominal value of $1 each, were issued at a price of $1.45 each. Of this, $1.15 was received which included the full par value.
30 September	The balance outstanding was received in full.
2016	
1 October	P Limited made a 1 for 4 rights issue at a discount of 15% of the most recent share valuation of $1.40 per ordinary share. All shareholders took up their rights in full.

REQUIRED

(b) Complete the following table for the **two** years ended 31 May 2017 to record these transactions.

Date	Name of account to be debited	Amount $	Name of account to be credited	Amount $

[6]

Additional information

Shareholders have not received any dividend since the company was formed. However, the financial statements show the following:

1 Profit for the years ended

31 May 2016	$15 000
31 May 2017	$30 000

2 Cash and cash equivalents at 31 May 2017 $90 000

On 1 June 2017 several major shareholders demanded that the directors pay a dividend of $0.48 per share.

REQUIRED

(c) Advise the directors how they should respond to the shareholders' demand. Support your answer with calculations.

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[Total: 15]

Question 4 is on the next page.

4 Anna has a manufacturing business with two production departments and two service departments. She makes circuit boards for electronic games using batch costing.

REQUIRED

(a) Explain what is meant by 'batch costing'.

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Additional information

The following budgeted annual data for Anna is available:

	Production departments		Service departments	
	Assembly	Machining	Stores	Canteen
Overheads	$36 000	$50 000	$6 250	$2 500
Direct labour hours	6 000	3 500	–	–
Machine hours	2 500	5 500	–	–

The following information is also available:

	Assembly	Machining	Stores
Number of orders	800	1200	–
Use of canteen	65%	25%	10%

REQUIRED

(b) Re-apportion the service departments' costs to the production departments using a suitable basis for each.

	Assembly $	Machining $	Stores $	Canteen $
Allocated overheads	36 000	50 000	6250	2500
Re-apportionment of canteen				
Subtotal				
Re-apportionment of stores				
Total				

[3]

(c) Calculate a suitable overhead absorption rate for **each** production department to **two** decimal places.

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Additional information

A typical order for a batch of 1000 circuit boards requires the following:

Direct materials	$48 000
Direct labour	
Assembly department	500 hours at $12 per hour
Machining department	300 hours at $8 per hour
Machine hours	
Assembly department	210 hours
Machining department	500 hours
Selling and administration costs	$7000

REQUIRED

(d) Calculate, to **two** decimal places, the total cost per circuit board based on a batch of 1000 units.

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Additional information

Sally, a customer, asked for a quote for an order for 75 circuit boards. Anna calculates the selling price to give a profit margin of 60%.

REQUIRED

(e) Prepare a quote showing the total selling price.

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Additional information

Sally considered the quoted price and has asked for a discount of 5%.

REQUIRED

(f) Advise Anna whether or not she should allow Sally the discount. Justify your answer.

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Additional information

Anna has recently opened another factory making cases for the electronic games. She is considering closing this factory as she believes it is unprofitable.

The following estimated data is available based on orders for the next six months:

Per unit	$
Selling price	12
Variable costs	5
Total fixed costs	21 000
Estimated demand	2800 units

REQUIRED

(g) Calculate the break-even point in units.

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(h) Advise Anna whether or not she should close this factory giving **both** financial and non-financial reasons for your answer.

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[Total: 30]

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