Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

CANDIDATE NUMBER | | | | |

9981040584

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 2019**

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 **20** printed pages.

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[Turn over

1 AB Limited is a wholesaler of household goods. The following information has been extracted from the books of account at 31 December 2018.

	$
6% debenture (2023–25)	80 000
Administrative expenses	111 700
Buildings	
Cost	80 000
Provision for depreciation at 1 January 2018	28 800
Land at cost	65 000
Motor vehicles	
Cost	46 000
Provision for depreciation at 1 January 2018	9 200
Warehouse fixtures and fittings	
Cost	12 900
Provision for depreciation at 1 January 2018	8 900
Carriage inwards	1 200
Cash and cash equivalents (credit balance)	5 300
Distribution costs	184 800
Finance costs	2 200
Inventory at 1 January 2018	56 500
Ordinary share dividend paid	1 700
Purchases	310 600
Retained earnings	19 100
Returns inwards	8 300
Revenue	670 400
Share capital ordinary shares of $1 each	80 000
Share premium	35 000
Trade and other payables	36 600
Trade and other receivables	92 400

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Additional information

1 Inventory at 31 December 2018 was valued at $62 000.

2 Trade and other receivables include prepaid insurance of $2000.

3 An irrecoverable debt of $400 should be written off to administrative expenses.

4 The directors wish to create a provision for doubtful debts of 5% of trade receivables. This should be charged to administrative expenses.

5 The debenture was issued on 1 March 2018. No interest has yet been paid.

6 The buildings owned by the company are used 75% as warehouse space and 25% as office space.

7 All of the company's motor vehicles are used only for deliveries.

8 The company's depreciation policy is as follows:

Buildings	2% per annum straight-line method
Motor vehicles	20% per annum straight-line method
Warehouse fixtures and fittings	10% per annum reducing balance method.

REQUIRED

(a) Prepare the income statement for the year ended 31 December 2018.

AB Limited
Income Statement for the year ended 31 December 2018

	$
Revenue	
Cost of sales	
Gross profit for the year	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

[10]

(b) Prepare the statement of financial position at 31 December 2018. Use the space provided on the **next page** for your workings.

AB Limited
Statement of financial position at 31 December 2018

Workings:

[9]

Additional information

The directors of AB Limited wish to raise an additional $100 000 capital for expansion. They are considering either a rights issue of ordinary shares or an issue of a further debenture.

REQUIRED

(c) Advise the directors which option they should choose. Give reasons for your answer.

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(d) Identify **two** internal stakeholders with an interest in the financial statements of a limited company.

1 .....

2 ..... [2]

Additional information

The directors of AB Limited use ratio analysis to assess the performance of the business.

REQUIRED

(e) Name **two** ratios that a business may use to assess:

(i) profitability

1 .....

2 ..... [2]

(ii) liquidity.

1 .....

2 ..... [2]

[Total: 30]

2 Jacques is a sole trader.

On 31 January 2019, the balance on the bank statement was $1875 debit. This did not agree with Jacques's cash book balance of $4327 credit.

The following transactions were included **only** on the bank statement.

1 A payment for wages of $850.

2 A transfer of $3500 from Smith, a credit customer.

The following transactions were included **only** in the cash book.

1 A cheque payment to a supplier for $340.

2 A receipt of $560 from a customer.

The following errors have also been identified.

1 A direct debit payment for insurance of $180 had been incorrectly recorded on the bank statement as $108.

2 A standing order for electricity of $175 had been incorrectly recorded in the cash book as $275.

3 Bank interest paid of $75 had been recorded as interest received in the cash book.

REQUIRED

(a) Prepare the updated cash book at 31January 2019. Dates are **not** required.

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(b) Prepare the bank reconciliation statement at 31 January 2019.

[4]

(c) State **two** reasons why a business would prepare a bank reconciliation statement.

1

2

[2]

Additional information

Jacques calculated a draft profit for the year ended 31 January 2019 of $10 340. He has identified the following.

1 An item of inventory had been included at cost, $800. It was found to be damaged. It could be sold for $900 if repairs costing $150 were carried out.

2 On 25 January 2019 Jacques had sent goods to a customer on a sale or return basis. These had been invoiced to the customer at $2800. Jacques marks up his goods at 40%. The customer had not decided whether to keep the goods.

3 On 4 February 2019 Jacques received an invoice for $3600 relating to rental of storage space for three months ending 31 March 2019.

REQUIRED

(d) Prepare a statement to show the revised profit for the year ended 31 January 2019, after adjusting for items 1, 2 and 3.

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[Total: 15]

3 Adam, Bilal and Chan operate a partnership providing secretarial services. The partners have no formal partnership agreement.

The following balances are extracted from the trial balance at 31 December 2018.

	Debit	Credit
	$	$
Fees revenue received		152 000
Business operating costs	76 000	
Capital accounts		
Adam		30 000
Bilal		20 000
Chan		10 000
Current accounts		
Adam		36 000
Bilal	4 000	
Chan		12 000
Trade receivables	27 000	
Loan account: Bilal		80 000
Motor vehicles at net book value	96 000	

REQUIRED

(a) Calculate the profit for the year ended 31 December 2018 before appropriation.

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(b) Calculate the share of profit appropriated to Bilal for the year ended 31 December 2018.

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Additional information

On 1 January 2019, Bilal decided to retire from the partnership. The partners agreed the following.

1 Bilal was to retain one motor vehicle. The net book value of the motor vehicle was $36 000 but it was agreed to transfer it to Bilal at a value of $30 000.

2 The remaining motor vehicles were to be revalued upwards by 5%.

3 An irrecoverable debt of $2000 was to be written off and a provision for doubtful debts of 4% was to be made.

4 Goodwill was to be valued at $24 000.

5 Bilal agreed to leave $45 000 in the partnership as a loan at 8% per annum interest. The remaining balance due to Bilal was to be paid from the partnership bank account.

REQUIRED

(c) Prepare the revaluation account at 1 January 2019.

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(d) Prepare a statement showing the amount to be paid to Bilal from the partnership bank account on his retirement.

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Additional information

Adam and Chan are to continue in partnership after Bilal's retirement and plan to draw up a formal partnership agreement to include the following:

profit-sharing ratio

rate of interest on capital

rate of interest on drawings.

REQUIRED

(e) State **two** reasons why partners may agree to provide interest on capital.

1 .....

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2 .....

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(f) State **two** reasons why partners may agree to charge interest on drawings.

1 .....

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2 .....

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(g) State **two** further terms that may appear in a partnership agreement.

1 .....

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2 .....

..... [2]

[Total: 15]

PLEASE TURN OVER

4 D Limited is a large company and operates from several sites. It uses different systems of costing for its different sites.

REQUIRED

(a) State **three** advantages to a business of using a system of absorption costing.

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[3]

Additional information

At one of its sites the company specialises in printing brochures and leaflets for local organisations. At this site it uses a system of absorption costing.

There are two production departments: Assembly and Printing and two service departments: Technical support and Personnel.

The following information is available.

	Production departments		Service departments	
	Assembly	Printing	Technical support	Personnel
Floor area (square metres)	90	70	15	5
Power (kilowatt-hours)	120	320	40	20
Replacement cost of machinery and equipment ($)	105 000	30 000	12 000	3 000
Number of employees	20	15	5	
Technical support hours	400	60		

The following budgeted overhead costs for August 2019 are still to be apportioned.

	$
Electricity	20 500
Insurance of machinery	7 500
Insurance of buildings	11 880

REQUIRED

(b) Complete the following table to show the apportionment of budgeted overhead costs for August 2019.

Apportionment of overheads

		Production departments		Service departments	
	Total $	Assembly $	Printing $	Technical support $	Personnel $
Overheads already apportioned	40 210	17 530	11 360	5020	6300
Electricity					
Insurance of machinery					
Insurance of buildings					
Total overheads apportioned					
Reapportionment of personnel overheads					
Reapportionment of technical support overheads					

[7]

Additional information

The following budgeted information is also available for August 2019.

	Assembly	Printing
Direct labour hours	3200	2000
Direct machine hours	1400	5500

REQUIRED

(c) Calculate an overhead absorption rate for **each** production department using an appropriate basis.

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Additional information

The company received an order for a set of brochures to be produced in August 2019. It was budgeted that this order would require the following:

Direct material and labour cost	$1330
Direct labour hours	
Assembly department	12.5 hours
Printing department	7.2 hours
Machine hours	
Assembly department	5.5 hours
Printing department	6.0 hours

The company requires a profit margin of 25% on all orders.

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REQUIRED

(d) Calculate the budgeted profit on this order.

[4]

Additional information

The actual time taken in each production department for this order was as follows:

	Assembly department	Printing department
Direct labour hours	11	6.5
Machine hours	6	8

REQUIRED

(e) Calculate the **total** over or under-absorption of overheads **for this order**. Clearly show in your workings over-absorption or under-absorption of overheads in **each** department.

[5]

Additional information

At a second site, D Limited manufactures garden chairs and uses a system of marginal costing. There are three models: basic, super and deluxe. Total budgeted fixed costs per annum are $234 000. Budgeted direct labour hours are 156 000 per annum. Fixed overhead costs are absorbed on the basis of direct labour hours.
The following forecast figures are available for September 2018.

	Basic	Super	Deluxe
Contribution per chair	$3	$9	$12
Direct labour hours per chair	3	4.5	5.5

A director has suggested that production of the model which provides the least profit should be discontinued and resources switched to the production of the other models.

REQUIRED

(f) Recommend whether or not production of the model which provides the least profit should be discontinued. Justify your answer using **both** financial and non-financial factors.

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[Total: 30]

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