Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

5952675819

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2020**

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. Blank pages are indicated.

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1 The directors of G Limited have provided a trial balance at 30 September 2020.

	Debit	Credit
	$	$
Administrative expenses	117 528	
Bank		10 316
Distribution costs	60 263	
Inventory at 1 October 2019	86 228	
Ordinary share capital ($1 shares)		200 000
Property plant and equipment		
Cost	300 000	
Provision for depreciation at 1 October 2019		82 500
Provision for doubtful debts at 1 October 2019		1 528
Purchases	237 851	
Retained earnings		34 572
Revenue		498 430
Share premium		20 000
Trade payables		26 124
Trade receivables	71 600	
	873 470	873 470

The following information is also available.

1 Property plant and equipment

	Cost $	Accumulated depreciation $	Depreciation method	Allocation of depreciation
Land	120 000	Nil	–	Nil
Other than land	180 000	82 500	15% per annum straight-line	2/3 administrative expenses 1/3 distribution costs
Total	300 000	82 500		

There were no acquisitions or disposals during the year.

2 Inventory at 30 September 2020 cost $91 368 and had a net realisable value of $126 435.

3 The directors wish to maintain a provision for doubtful debts at 3% of trade receivables. All expenses relating to doubtful debts are charged to administrative expenses.

4 At 30 September 2020

	$
Administrative expenses accrued	3850
Bank interest accrued	250
Distribution costs prepaid	1460

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REQUIRED

(a) Prepare the income statement for the year ended 30 September 2020.

G Limited
Income statement for the year ended 30 September 2020

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Workings:

[12]

(b) Prepare the statement of financial position at 30 September 2020.

G Limited
Statement of financial position at 30 September 2020

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Workings:

[7]

(c) State **two** differences between ordinary shares and preference shares.

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[2]

(d) **(i)** Define a 'capital reserve'.

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..... [1]

(ii) State **one** use of a capital reserve.

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..... [1]

Additional information

The directors are planning a major expansion. They wish to raise $100 000.

The directors are considering three options:

Option 1: Issue 6% debentures (2029) of $100 000.

Option 2: Make a rights issue of one ordinary share for every two ordinary shares held at $1 each.

Option 3: Make a new issue of 100 000 ordinary shares at a premium of $0.10 per share.

REQUIRED

(e) Advise the directors which option they should take. Justify your answer.

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..... [7]

[Total: 30]

PLEASE TURN OVER

2 Simone operates a double entry system of book-keeping.

REQUIRED

(a) Explain why a trial balance may be arithmetically correct even though errors have been identified.

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..... [2]

Additional information

Simone extracted a trial balance before preparing the financial statements for the year ended 30 June 2020. The totals of the trial balance did not agree.

The following errors were discovered.

1 A total of $5600 from the sales returns journal had been credited to the purchases returns account.

2 A motor vehicle costing $15 000, acquired on 1 March 2020, had been posted to the motor expenses account. Simone does not own any other vehicles.

3 Discount received of $750 had not been posted to the discount received account.

4 A payment of $300 for insurance had been entered correctly in the cash book. No other entry had been made.

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REQUIRED

(b) Prepare the journal entries to correct the errors. Narratives are **not** required.

Simone
General journal

	Dr $	Cr $

[4]

Additional information

Simone's policy is to depreciate motor vehicles at 25% using the straight-line method on a monthly basis.

She prepared a draft income statement that showed a profit for the year of $47 835 before the correction of errors.

REQUIRED

(c) Calculate the revised profit for the year **after** the correction of errors.

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(d) State **three** uses of the general journal other than the correction of errors.

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[3]

[Total: 15]

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PLEASE TURN OVER

3 Giles, a sole trader, provided the following information for the year ended 31 March 2020.

1 Closing inventory was valued at $40 250 which was 15% higher than the opening inventory.

2 Rate of inventory turnover was 8 times.

3 Gross margin was 30%.

4 All sales and purchases were made on credit.

5 Trade receivables at 31 March 2020 were $38 000 **before** accounting for an irrecoverable debt of $2000 and an allowance for doubtful debts which is maintained at 3.5% of trade receivables.

6 Trade payables at 31 March 2020 were $22 000.

REQUIRED

(a) Calculate the sales for the year ended 31 March 2020.

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(b) Calculate the trade receivables turnover (days).

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(c) Calculate the trade payables turnover (days).

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(d) Explain the effect on the liquidity of Giles's business of your answers to **(b)** and **(c)**.

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[Total: 15]

4 Connie manufactures three products: A, B and C. She has provided the following budgeted information for one unit of each product for the year ending 31 December 2021.

	Product A	Product B	Product C
	$	$	$
Selling price	15.00	20.00	25.00
Direct Materials	5.00	5.50	6.00
Direct Labour	4.00	5.00	7.50
Variable Overheads	2.50	3.50	2.50

Total fixed costs for the year are expected to be $100 000.
Forecast annual demand for **each** product is 12 000 units.

REQUIRED

(a) Explain what is meant by contribution.

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(b) Calculate the budgeted unit contribution for **each** product.

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(c) Calculate the budgeted **total** profit for the year ending 31 December 2021 if the demand is fully met.

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Additional Information

Connie has now discovered that her landlord may limit the use of the premises resulting in a total of only 78 000 machine hours being available.

The number of machine hours to make **each** product are:

Product A	2
Product B	4
Product C	4

Fixed costs will remain unchanged.

REQUIRED

(d) (i) Prepare the optimum production plan for the year ending 31 December 2021 based on the available machine hours.

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(ii) Calculate the budgeted **total** profit for the year ending 31 December 2021 based on the optimum production plan.

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Additional information

If Connie pays her landlord $65 000 she will be able to have unlimited machine hours.

REQUIRED

(e) Advise Connie whether or not she should pay her landlord $65 000. Justify your advice.

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(f) Define the following terms:

(i) Variable cost

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(ii) Semi-variable cost

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..... [1]

(iii) Fixed cost

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(g) State **three** assumptions made when using marginal costing.

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[3]

[Total: 30]

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