Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

0074847510

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 2018**

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 **19** printed pages and **1** blank page.

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CAMBRIDGE
International Examinations

1 Ashir, Bo and Chan are in partnership. The partnership agreement includes the following terms:

1. Profits and losses are shared in the ratio of the partners' capital accounts.
2. Interest on capital is 6% per annum.
3. Interest on drawings is 5% calculated on each partner's total annual drawings.
4. Partners' loan interest is 12% per annum.
5. Chan receives a salary of $1000 per month.

The following information is available at 31 December 2016:

	$	
Capital accounts		
Ashir	40 000	
Bo	30 000	
Chan	10 000	
Current accounts		
Ashir	12 300	
Bo	8 200	
Chan	2 600	debit
Drawings		
Ashir	15 400	
Bo	12 200	
Chan	16 400	
Fixtures and fittings		
Cost	32 400	
Provision for depreciation	21 400	
Motor vehicles		
Cost	80 000	
Provision for depreciation	48 000	
Loan account – Ashir	10 000	
Gross profit	171 620	
Operating expenses	54 960	
Staff wages	32 500	

Additional information

1. Operating expenses include a payment of $600 for insurance covering the 12-month period to 31 August 2017.
2. Staff wages owing at 31 December 2016 were $860.
3. Depreciation is to be charged as follows:

Fixtures and fittings	10% per annum using the reducing balance method
Motor vehicles	20% per annum using the straight-line method

REQUIRED

(a) Prepare the income statement for the partnership for the year ended 31 December 2016. Start with the given gross profit of $171 620.

[5]

(b) Prepare the profit and loss appropriation account for the partnership for the year ended 31 December 2016.

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(c) Prepare the partners' current accounts for the year ended 31 December 2016 on the **next page**. [7]

Current Accounts

Detail	Ashir $	Bo $	Chan $	Detail	Ashir $	Bo $	Chan $

Additional information

On 1 January 2017, Chan decided that he wished to retire with immediate effect. The partners agreed that as part of his settlement, he could keep one of the motor vehicles at the net book value of $18 000.

At that date it was agreed that the total value of goodwill was $124 000.

REQUIRED

(d) Prepare a statement to calculate the bank settlement due to, or from, Chan on his retirement.

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Additional information

Following Chan's retirement, Ashir and Bo are considering converting their business to a limited company to continue the business.

REQUIRED

(e) State **two** advantages to a partnership of converting to a limited company.

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Additional information

Ashir's brother Bilal, a sole trader with three employees, has been running his business for four years. Turnover has doubled over the past year and the business is gradually becoming very profitable.

Bilal does not maintain a full set of accounting records, but his friend has recommended that he should.

REQUIRED

(f) Advise Bilal whether or not he should maintain a full set of accounting records. Give reasons for your answer.

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(g) State **two** reasons for maintaining a sales ledger control account.

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[Total: 30]

2 The following information has been extracted from the books of account of FA Limited at 1 January 2016.

	$
Motor vehicles at cost	124 000
Motor vehicles provision for depreciation	54 250

The following information is also available.

1 All the company's motor vehicles had been purchased on 1 January 2014.

2 On 1 July 2016, a new motor vehicle was purchased for $48 000. The cost was settled by a cheque payment of $28 000, the balance by the part exchange of an old motor vehicle.

The vehicle that was part-exchanged had cost $36 000.

3 The company policy is to depreciate motor vehicles at 25% per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase, but none in the year of sale.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 December 2016. (Dates are not required.)

Motor vehicles at cost

	$		$

Motor vehicles provision for depreciation

	$		$

Disposal of non-current assets

	$		$

Workings

[6]

(b) Analyse the effect on the profit for the year ended 31 December 2016 if FA Limited had always used the **straight-line method** of depreciation at **20%** per annum. Show your workings.

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(c) Explain **two** accounting concepts that apply to making the annual charge for depreciation.

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[Total: 15]

PLEASE TURN OVER

3 Anna has obtained the following data at 31 December 2016 in respect of Ravi, a possible new customer.

	$	
Trade receivables	20 640	
Cash and cash equivalents	4 840	debit
Inventory	38 100	
Trade payables	28 760	

Other figures obtained are:

Sales for the year	331 750
Inventory at 1 January 2016	46 200

Ravi has a mark-up of 25%.

REQUIRED

(a) Calculate the following ratios for Ravi's business to **two** decimal places:

(i) Current ratio

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(ii) Liquid (acid test) ratio

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(iii) Rate of inventory turnover

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Additional information

Anna has also obtained the following data in respect of Yuan, another possible customer.

Current ratio	3.82 : 1
Liquid (acid test) ratio	1.63 : 1
Rate of inventory turnover	6.69 times per year

Anna's main concern when choosing the customer is that they should pay her promptly.

REQUIRED

(b) Advise Anna which customer she should choose. Justify your answer.

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(c) State **three** limitations to a business of using ratio analysis.

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[Total: 15]

4 Zinan is a manufacturer and makes a single product. He currently uses marginal costing.

The following budgeted information is available for two years.

	Year 1	Year 2
	$	$
Direct labour	38 500	45 500
Direct material	24 750	29 250
Factory costs	13 750	15 250
	Units	Units
Sales	10 000	11 000
Production	11 000	13 000

The following information is also available.

1 Of the factory costs, $5500 are fixed for each year and the remainder are variable.

2 Variable cost per unit is not expected to change.

3 Fixed selling costs are $3500 for Year 1. These are expected to increase by 2% for Year 2.

4 Variable selling costs are expected to be 5% of the sales revenue for each year.

5 The selling price is $18 per unit.

6 There was no opening inventory in Year 1.

REQUIRED

(a) Calculate the budgeted variable cost of production per unit.

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(b) Calculate the **total** budgeted contribution for **each** year.

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(c) Calculate the budgeted production cost **per unit** for **each** year.

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Additional information

Zinan is considering using absorption costing.

REQUIRED

(d) State **two** limitations of absorption costing.

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(e) Calculate the **total** budgeted profit for **each** of the two years using absorption costing.

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(f) Explain why profit calculated using absorption costing would be different to profit calculated using marginal costing.

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Additional information

During actual production of a large order for 3000 units, Zinan discovers that the customer has ceased trading. If he cannot find another customer for these units he will have to decrease production for Year 1 and reduce staff.

To prevent this from happening, Zinan is proposing to attract new customers for the 3000 units with a marketing campaign.

The following information is available in respect of **only** the 3000 units.

1 The budgeted selling price would be reduced by 7.5%.

2 Advertising costs would be $1000.

3 There would be additional direct labour costs of $0.15 per unit.

REQUIRED

(g) Prepare a statement to calculate the effect on profit for Year 1 if the proposal is accepted.

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(h) Advise Zinan whether or not he should go ahead with the marketing campaign. Justify your answer using **both** financial and non-financial factors.

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[Total: 30]

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