

Cambridge
International
AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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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.

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

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..... [1]

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

1

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2

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3

..... [3]

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.

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
	<u>39 290</u>	Balance c/d	<u>20 470</u>
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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[5]

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

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..... [4]

(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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..... [2]

[Total: 15]

(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

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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..... [5]

- (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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..... [4]

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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..... [6]

[Total: 30]

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