

Cambridge International Examinations Cambridge International Advanced Subsidiary and Advanced Level

	CANDIDATE NAME		
	CENTRE NUMBER	CANDIDATE NUMBER	
*			
7	ACCOUNTING		9706/21
2	Paper 2 Structu	ured Questions	May/June 2017
			1 hour 30 minutes
_ _			i noui so minutes
5	Candidates ans	wer on the Question Paper.	
6 4 9	No Additional M	aterials 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.



1 The directors of AB Limited provide the following financial information:

Income Statement (extract) for the year ended 30 April 2016

,	, , , , , , , , , , , , , , , , , , ,
Revenue Purchases (80% on credit) Expenses	\$ 300 000 250 000 27 000
All sales earned a uniform	gross margin of 20%.
Statement of Financial Pos	sition at 30 April 2016
Non-current assets Current assets	\$ <u>160 000</u>
Inventory Trade receivables Cash and cash equiva	38 000 35 000 alents 45 000
Total assets	<u>118 000</u> 278 000
Equity and liabilities Equity	
Ordinary share capital Share premium	5000
Retained earnings	<u>25 000</u> 200 000
Current liabilities Trade payables Other payables	27 000 <u>51 000</u> 78 000
Total equity and liabilities	278 000

REQUIRED

(a) Prepare the income statement for AB Limited for the year ended 30 April 2016 in as much detail as possible.

 [4]

(b)		iggest two reasons why the balance on a retained earnings account may be lower than the ofit for the year.			
	1				
	2				
	2	101			
		[2]			
(c)	Cal	culate the following ratios.			
	(i)	Rate of inventory turnover (to two decimal places)			
		[2]			
	(ii)	Liquid (acid test) ratio (to two decimal places)			
		[2]			
	(iii)	Trade payables turnover (days)			
·	. ,				
		[2]			

The following information is available for XY Limited, a competitor of AB Limited.

Rate of inventory turnover	8.75 times
Liquid (acid test) ratio	0.85:1
Trade payables turnover (days)	42 days

REQUIRED

(d) Discuss the performance of AB Limited by comparing the ratios calculated in part (c) with those of XY Limited.

Rate of inventory turnover
Liquid (acid test) ratio
Trade payables turnover (days)
[6]

Additional information

CD Limited has been asked by both AB Limited and XY Limited to become their supplier. The directors of CD Limited only wish to supply to one of the two companies.

REQUIRED

(e) Advise the directors of CD Limited which company they should supply. Give reasons for your answer.

[4]

Question 1(f) is on the next page.

Additional information

The financial statements of AB Limited for the year ended 30 April 2017 showed a draft profit for the year of \$71,000. A review of the books of account revealed the following errors:

- 1 A sales invoice for \$234 had been recorded as \$324.
- 2 Returns outwards account had been overcast by \$100.
- 3 Inventory of \$1200 had been omitted from closing inventory.

REQUIRED

(f) Calculate the revised profit for the year ended 30 April 2017.

[4]

(g) Explain the difference between a capital reserve and a revenue reserve.

[4]

Question 2 is on the next page.

7

2 Amit and Binu are in partnership sharing profits and losses in the ratio 3 : 2 respectively. The partnership statement of financial position at 30 June 2016 is as follows:

	\$	\$
Non-current assets		
Premises		40 000
Machinery		32000
Motor vehicles		<u>18 000</u>
		90 000
Current assets		
Inventory	18600	
Trade receivables	<u>13 100</u>	<u>31700</u>
Total assets		<u>121700</u>
Capital accounts		
Amit	30 000	
Binu	<u>20000</u>	50 000
Current accounts		
Amit	33 200	
Binu	<u>18400</u>	<u>51600</u>
		101600
Current liabilities		
Trade payables	9800	
Bank overdraft	<u>10 300</u>	20 100
Total capital and liabilities		<u>121700</u>

The partners agreed to dissolve the partnership on 30 June 2016. This resulted in the following:

- 1 Trade receivables realised \$12600.
- 2 Trade payables were settled in full for \$9800.
- 3 Inventory was sold for \$15000.
- 4 The machinery was sold for \$35000.
- 5 Amit agreed to take over the premises at an agreed valuation of \$30,000.
- 6 Binu agreed to take over one of the motor vehicles at an agreed valuation of \$6500. The remaining motor vehicle was sold for \$12000.
- 7 The costs of dissolution were \$6300.

REQUIRED

(a) Prepare the realisation account on the dissolution of the partnership.

Realisation account

	[6]
(b)	[6]
(b)	[6] Prepare a statement to show how much Binu will receive when the partnership bank account
(b)	[6] Prepare a statement to show how much Binu will receive when the partnership bank account is closed.
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(b)	[6] Prepare a statement to show how much Binu will receive when the partnership bank account is closed.

(c) State two reasons why a partnership may be dissolved.

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2	
	[2]

(d) Explain what would happen if the dissolution of the partnership resulted in a debit balance on a partner's capital account.

[3] [Total 15] Question 3 is on the next page.

11

3 Meena did not keep full accounting records. She was advised to keep her books of account using the double entry system.

REQUIRED

(a) State three benefits a business gains from maintaining a system of double entry book-keeping.

Additional information

Meena now uses the double entry system of book-keeping. At the end of January the total of the balances in the sales ledger was \$34524. However, the balance on the sales ledger control account was \$33205.

On investigation she found the following errors:

- 1 The sales journal had been undercast by \$1649.
- 2 A cheque received had been correctly entered in the cash book as \$650 but was entered in the sales ledger as \$560.
- 3 An irrecoverable debt, \$420, had been written off in the sales ledger but not entered in the control account.
- 4 A credit note issued for \$160 had been completely omitted from the books of account.

REQUIRED

(b) Prepare a reconciliation between the sales ledger control account and the sales ledger balances at 31 January.

Description	Add (\$)	Less (\$)	Total (\$)
Opening balance			33 205

Sales ledger control account

13

Sales ledger balances

Description	Add (\$)	Less (\$)	Total (\$)
Opening balance			34 524

[6]

(c) State three reasons why there might be a credit balance on a customer's account in the sales ledger.

1	
2	
3	 [3]

Additional information

Meena is considering charging interest on the full account balances of her customers who do not pay promptly.

REQUIRED

(d) Advise Meena whether or not she should take this course of action. Justify your answer.

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[Total: 1	51
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4 Ken produces components for mobile telephones. The following budgeted data is available for the year ending 31 December 2018:

	Per unit
	\$
Selling price	5.25
Direct materials	0.50
Direct labour	0.75
Direct expenses	0.25
Break-even point	16000 units

REQUIRED

(a) Calculate the budgeted fixed costs for the year ending 31 December 2018.

[3]

Additional information

The budgeted profit for the year ending 31 December 2018 is \$75000.

REQUIRED

- (b) Calculate for the year ending 31 December 2018:
 - (i) budgeted number of units to be sold

[2]

(ii) budgeted contribution to sales (C/S) ratio (to two decimal places) [2] (c) State the meaning of C/S ratio. [1] (d) (i) State the name given to the difference between the budgeted total sales units and the budgeted break-even sales units. [1] (ii) Explain the significance of this difference to a business. [2] (e) Prepare the break-even chart for Ken based on the relevant data. Clearly identify the area of profit, the area of loss and the break-even point.

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[7]

(f) State three limitations of a break-even analysis.

Additional information

Ken is considering increasing the selling price to \$6.00 per unit from 1 January 2019. He expects that all costs will remain unchanged.

REQUIRED

(g) Calculate the number of units Ken must sell **each** month so the budgeted total contribution is the same as in 2018.

	 	 [5]

(h) Advise Ken whether or not he should increase the selling price taking into account both financial and non-financial factors.

[4]
[Total: 30]

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