

Cambridge International AS & A Level

Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME				
CENTRE NUMBER		CANDIDATE NUMBER		

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.



1 Alan and Jack have been in partnership for several years, sharing profits and losses equally. They prepare their financial statements annually to 30 September.

On 30 September 2014 the balances on their capital accounts were Alan \$139800 and Jack \$128000.

On 1 October 2014 the following took place:

- 1 Max joined the partnership. He paid \$27 000 into the partnership bank account and introduced inventory valued at \$5000.
- 2 Alan transferred \$15 000 from his capital account into a loan account. Interest on the loan is to be paid at 10% per annum. The loan is repayable by 30 September 2020.
- 3 The partners agreed a value for goodwill of \$40000. No goodwill is to be recorded in the books.
- 4 Alan, Jack and Max are to share profits and losses in the ratio 2:2:1 respectively.

REQUIRED

(a) Prepare the capital accounts of the partners at 1 October 2014 taking the above into account.

Alan, Jack and Max

Capital accounts at 1 October 2014
19

)	(1)	State what is meant by goodwill.
		[1]
	(ii)	State three factors which affect the value of goodwill.
		1
		2
		3
		[3]

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	9500 Credit	7 500 Credit	Nil
Drawings for the year ended 30 September 2015	16 000	24000	8 000

The residual profit to be shared by the partners in the profit sharing ratio is \$90000.

Alan, Jack and Max

REQUIRED

(c) Prepare the partners' current accounts for the year ended 30 September 2015.

	Current accounts
	[7]
(d)	Calculate the profit for the year ended 30 September 2015 transferred from the income statement to the appropriation account.
	[5]

30 September 2014

1.1:1

30 September 2015

0.85:1

[Total: 30]

Additional information

Liquid (acid test) ratio

The partners have calculated the following ratios for the business:

Trade receivables turnover				34 da	ys	42 days				
RE	QUIF	RED								
(e)	(i)	Comment on the cha 30 September 2015.	nges in	liquidity	of the	partnership	from 30	September	2014 to	
			••••••					•••••		
			•••••					•••••		
			•••••							
			••••••							
			•••••							
									•••••	
									[4]	
	/ii\	Suggest wave in which								
	(ii)	Suggest ways in which	i ille pai	uleisilib	iiquiuity	may be imp	novea.			
			•••••						•••••	
			•••••						•••••	
									•••••	
			•••••							
						•••••			•••••	
			•••••				•••••		•••••	
									[4]	

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	22380	Sales returns journal	1440
Sales journal	16910	Bank	17380
-		Balance c/d	<u>20470</u>
	39290		39290
Balance b/d	20470		

Raheem extracted a list of customer account balances from the sales ledger at 31 December 2015 totaling \$18740. 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.
- 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.
- 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 update	ed sales ledge	r control	account fo	or the	month	of December	r 2015.	Start
	your answer with th	e balance brou	ght dow	n of \$20470).				

Calca ladger central account

Sales leager control account
[5]

(b)	Prepare a statement to reconcile the original total of sales ledger balances of \$18740 with the closing balance on the amended sales ledger control account.
	[5]
(c)	State three advantages to a business of maintaining a sales ledger control account.
	1
	2
	3
	[3]
(d)	State two types of errors that will not be identified by producing a sales ledger control account.
	1
	2
	[2]
	[Total: 15]
	[Total: 13]

3	The following	is	an	extract	from	the	statement	of	financial	position	of	Chopin	Limited	at
	30 June 2015:													

	\$
Non-current assets	750 000
Ordinary shares of \$0.25 each	300 000
Share premium	20 000
Retained earnings	635210

During the year ended 30 June 2016, the following took place:

1 November 2015 Non-current assets were revalued to \$1 000 000.

1 January 2016 A bonus issue of shares was made. The terms of the issue were 1 new

share for every 10 shares in existence. Reserves were maintained in the

most flexible form.

1 April 2016 Dividend of \$0.02 per share was paid.

Profit for the year ended 30 June 2016 was \$230 809.

REQUIRED

(a)	Prepare a statement of changes in equity for the year ended 30 June 2016.
	[7

Explain why the company should not use its revaluation reserve to pay dividends to shareholders.
[4]
State two uses of a share premium account.
1
2
[2]
State the difference between a bonus issue of shares and a rights issue of shares.
[2]
[Total: 15]

4 Costello Limited is a manufacturing business that produces one product, a wooden bookcase. All production is sold to just one customer, Dando plc.

Costello Limited is contracted to produce 220 bookcases for the customer each week at a contract price of \$30 per bookcase.

Employees are paid a fixed salary each week plus a bonus based on output.

The costs incurred by Costello Limited are as follows:

	\$
Direct material cost	22.00 per unit
Production labour	
Salaries	345.00 per week
Bonus	0.50 per unit
Finishing labour	
Salaries	280.00 per week
Bonus	0.25 per unit
Machine hire	150.00 per week
Administration costs	500.00 per week
Property costs	260.00 per week

REQUIRED

(a)

Calculate the weekly break-even point in units.
[5

(b)	Calculate the weekly margin of safety in units and in revenue .
	[2]
(c)	Prepare an annual profit statement using marginal costing.
(0)	Trepare an annual profit statement using marginal costing.
	[4]

The directors of Costello Limited are concerned about the future prospects of the company. Employees have spare capacity and the machinery is not being fully utilised.

The company has been approached by a large retailer asking for a quotation to produce 100 bookcases each week. The retailer requires the bookcases to have a different finish that would add \$2.25 to the direct material cost.

REQUIRED

(d)	Calculate the selling price that the directors should charge the retailer in order to achieve a 20% contribution to sales ratio.
	[4]

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 total annual profit if the retailer accepts the quotation.	and
		r.—1
(f)	Advise the directors whether or not they should proceed with the additional order for	
	retailer. Give reasons for your answer.	
		 [4]

Businesses may value inventory using different methods.

REQUIRED

(g)	Explain two valuation.	advantages	and one	disadvantage	of using	the AVCO	method of	inventory
	Advantage 1							
	•••••							
	Advantage 2							
							•••••	
	Disadvantage	:					•••••	
								[6]
								Total: 30]

BLANK PAGE

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.