

Cambridge International AS & A Level

Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

ACCOUNTING

9706/02

Paper 2 Structured Questions

For Examination from 2016

SPECIMEN PAPER

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 any diagrams, graphs or rough working.

Do not use staples, paper clips, glue or correction fluid.

DO NOT WRITE IN ANY BARCODES.

Answer all questions.

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 17 printed pages and 1 blank page.

Answer **all** the questions.

1 Ali operates a small trading business.

For the year ended 31 December 2014 he provides the following information:

Gross profit margin	54%
Profit margin	18%
Current ratio	1.6:1
Trade receivables turnover	40 days
Return on capital employed	5.4%
Cost of sales	\$248400
Closing inventory	\$38 000
Cash and cash equivalents	\$30308
Long-term loan	\$1000000

REQUIRED

(a) Prepare for Ali's business in as much detail as possible
--

(i)	the income statement for the year ended 31 December 2014
	[5]

(ii)	the statement of financial position at 31 December 2014.	
		[6]

Note: Calculations should be to the nearest \$ where appropriate.

b)	State two advantages and two disadvantages of ratio analysis.	
		[4

For the year ended 31 December 2013 Ali has calculated the following ra	following ratios:
---	-------------------

Current ratio	1.3 : 1
Trade receivables turnover	30 days
Gross profit margin	48%
Profit margin	12%

REQUIRED

(c)	Assess the performance of the business in respect of liquidity and profitability.
	[7]
Add	ditional information
Ali acc	maintains a full set of accounting records, including a sales ledger and a sales ledger control ount. All sales are on credit.
RE	QUIRED
(d)	State one advantage of maintaining a sales ledger control account.
	[1]

At 31 January 2015 the balance on the sales ledger control account was \$64850. After investigation the following errors were discovered.

- (i) The total of the discount allowed column in the cash book had been overstated by \$200.
- (ii) A receipt of \$800 from Siri, a customer, had been treated as a refund from Sally, a supplier.
- (iii) The total of the sales journal for January had been undercast by \$500.
- (iv) An invoice for \$950 sent to Bernie had been entered in the sales journal as \$590.
- (v) Goods with a selling price of \$760 had been invoiced to Janine. The goods were sent on a sale or return basis. Janine had not indicated whether or not she intended to buy them.
- (vi) An invoice for \$280 sent to Ken had been correctly entered in the sales journal but had been entered in Ken's account as \$208.

REQUIRED

(e)	Calculate appropriat						
		 	 	 	 	 	 -

[Total: 30]

2 Businesses depreciate their non-current assets.

REQUIRED

	State two reasons why a business depreciates its non-current assets.	
		[2]
	Explain with examples why a business uses different rates of depreciation for different type of assets.	es
		••••
••••		
		[3]

Annette runs a trading business. Her trading year end is 30 June. She provided the following information relating to her non-current assets at 30 June 2014.

	Plant and	Motor
	machinery	vehicles
	\$	\$
Cost	500 000	300 000
Accumulated depreciation	200 000	100 000

During the year ended 30 June 2014 she provided depreciation of \$50 000 on motor vehicles.

Her accounting policy is to depreciate non-current assets as follows:

Plant and machinery at 10% per annum using the straight-line basis Motor vehicles using the reducing balance basis A full year's depreciation is charged in the year of purchase No depreciation is charged in the year of disposal

During the year ended 30 June 2015 Annette purchased new machinery at a cost of \$180 000. She sold some old equipment for \$38 000. This had cost \$40 000 and had been purchased on 1 January 2013.

REQUIRED

(c)	Calculate the depreciation charge for the year ended 30 June 2015 in respect of the plant and machinery.
	[3]
(d)	Calculate the rate of depreciation used by Annette for motor vehicles.
	[4]
Add	ditional information:
	nette is thinking of changing the method of depreciation each year in order to show the highest fit possible.
RE	QUIRED
(e)	Advise Annette whether or not she should do this, giving two reasons for your answer.
	[3]

[Total: 15]

3 Ben, Stan and Dan have been in partnership for many years sharing profits and losses equally. Their summarised statement of financial position at 31 March 2015 is as follows:

	\$	\$
Assets		
Non-current assets		300 000
Current assets		<u>140 000</u> <u>440 000</u>
Capital accounts		
Ben	140 000	
Dan Stan	140 000	420 000
Stari	<u>140 000</u>	420000
Current accounts		
Ben	12 000	
Dan	14 000	
Stan	<u>(6 000)</u>	<u>20 000</u>
		<u>440 000</u>

On 1 April 2015 Stan retired from the partnership. Ben and Dan will share profits and losses equally.

The terms of Stan's retirement were as follows:

- 1 Goodwill was valued at \$36000. No goodwill account is to appear in the books of account.
- 2 Stan will take a motor vehicle in part settlement of the amount due to him. This was valued in the books at \$10 000. However, the partners agreed that it was only worth \$7000.
- 3 The remaining non-current assets were revalued at \$320 000.

All of these adjustments were recorded in the books of account on 1 April 2015.

REQUIRED

(a)	State two reasons why a partner's current account may have a debit balance.	
		[2]
(b)	Explain why a partner's capital account is credited with goodwill and any revaluation assets when they retire.	ı of
		[3]
(c)	Prepare the revaluation account for the partnership.	
		[3]

(d)	Prepare the capital accounts of Ben and Dan.
	[3]
(e)	Calculate the amount paid to Stan from the partnership bank account.
	[4]

[Total: 15]

Janty operates a small manufact has two production cost centres			roduct, product Aye. The fac	tory
REQUIRED				
(a) Explain what is meant by a	cost centre.			
				[2]
Additional information				
Janty calculates an overhead al then uses this to charge overhead			e based on budgeted data.	She
Details of the budgeted informa	tion are:			
Overheads Direct labour hours Machine hours REQUIRED	Cost centre 1 \$100 000 10 000 2 000	Cost centre 2 \$180 000 3 600 45 000		
	ad abaawatian wa	to for each cost o	a m bu a	
(b) Calculate a suitable overhea	ad absorption ra	ite for each cost c	entre.	
				•••••
				[4]

The actual overheads incurred and hours worked for each cost centre during the year were as follows:

	Cost centre	Cost centre
	1	2
Actual overheads	\$105000	\$172000
Actual direct labour hours	10 100	4000
Actual machine hours	2400	47 000

REQUIRED

(c)	Calculate the over absorption or under absorption of overheads for each department for the year.
	[4]

Simon, a new customer, asks Janty to quote for an order of 500 units of product Aye. The following information is available in respect of their manufacture.

Direct material 50 kilos at \$2 per kilo
Direct labour – cost centre 1 5 hours at \$12 per hour
cost centre 2 2 hours at \$15 per hour

Machine hours cost centre 2 only 6 hours

Janty marks up the cost of an order by 100% to calculate the selling price for a quote.

REQUIRED

(d)	Prepare a quote in as much detail as possible to show the total selling price.

Simon offers to pay Janty \$350 for the order. At the present time the factory is not operating at full capacity.

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REQ	יטי	П	ᄓ

(e)	Recommend with reasons whether	Janty should a	ccept Simon's orde	r.	
					[4]
Ada	ditional information				
	ty operates a second factory. This favided you with the following actual in				he has
		Bee	Cee	Total	
	Sales units	5 000	8 000		
	Revenue Variable costs Allocated fixed overheads Profit for the year	\$ 75 000 (50 000) (<u>22 000</u>) <u>3 000</u>	\$ 96 000 (62 000) (12 000) 22 000	\$ 171 000 (112 000) (34 000) 25 000	
REG	QUIRED				
(f)	Calculate the break-even point in ur	nits for Bee.			
		•••••			
			***************************************		. [4]

Janty is considering stopping the production of Bee because of its low profitability.

REQUIRED

(g)	Recommend with reasons whether Janty should stop making product Bee.
	[4]

[Total: 30]

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