## Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE
NAME

## CENTRE

 NUMBER|  |  |  |  |  |
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## ACCOUNTING

Paper 2 Structured Questions
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.

## 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 | $\$ 38000$ |
| 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
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(ii) the statement of financial position at 31 December 2014.
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Note: Calculations should be to the nearest $\$$ where appropriate.
(b) State two advantages and two disadvantages of ratio analysis.
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## Additional information

For the year ended 31 December 2013 Ali has calculated the 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.
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## Additional information

Ali maintains a full set of accounting records, including a sales ledger and a sales ledger control account. All sales are on credit.

REQUIRED
(d) State one advantage of maintaining a sales ledger control account.
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## Additional information

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 the correct balance on the sales ledger control account after making the appropriate adjustments.
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2 Businesses depreciate their non-current assets.

## REQUIRED

(a) State two reasons why a business depreciates its non-current assets.
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(b) Explain with examples why a business uses different rates of depreciation for different types of assets.
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## Additional information

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 <br> machinery | Motor <br> vehicles |
| :--- | :---: | :---: |
|  | $\$$ | $\$$ |
| Cost | 500000 | 300000 |
| Accumulated depreciation | 200000 | 100000 |

During the year ended 30 June 2014 she provided depreciation of $\$ 50000$ 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 $\$ 180000$. She sold some old equipment for $\$ 38000$. This had cost $\$ 40000$ 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.
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(d) Calculate the rate of depreciation used by Annette for motor vehicles.
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## Additional information:

Annette is thinking of changing the method of depreciation each year in order to show the highest profit possible.

## REQUIRED

(e) Advise Annette whether or not she should do this, giving two reasons for your answer.
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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 | $\$$ | $\$$ |
| Current assets |  | 300000 |
|  |  | $\underline{140000}$ |
| Capital accounts |  |  |
| Ben | 140000 |  |
| Dan | 140000 |  |
| Stan | $\underline{140000}$ | 420000 |
| Current accounts <br> Ben <br> Dan <br> Stan | 12000 |  |
|  | 14000 | $(6000)$ |$\quad \underline{440000}$

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 $\$ 10000$. However, the partners agreed that it was only worth $\$ 7000$.

3 The remaining non-current assets were revalued at $\$ 320000$.
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.
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(b) Explain why a partner's capital account is credited with goodwill and any revaluation of assets when they retire.
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(c) Prepare the revaluation account for the partnership.
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(d) Prepare the capital accounts of Ben and Dan.
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(e) Calculate the amount paid to Stan from the partnership bank account.
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4 Janty operates a small manufacturing business making a single product, product Aye. The factory has two production cost centres and no service cost centres.

## REQUIRED

(a) Explain what is meant by a cost centre.
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## Additional information

Janty calculates an overhead absorption rate for each cost centre based on budgeted data. She then uses this to charge overheads to products.

Details of the budgeted information are:

|  | Cost centre | Cost centre |
| :--- | ---: | ---: |
|  | 1 | 2 |
| Overheads | $\$ 100000$ | $\$ 180000$ |
| Direct labour hours | 10000 | 3600 |
| Machine hours | 2000 | 45000 |

## REQUIRED

(b) Calculate a suitable overhead absorption rate for each cost centre.
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## Additional information

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 | 10100 | 4000 |
| Actual machine hours | 2400 | 47000 |
| QUIRED |  |  |

(c) Calculate the over absorption or under absorption of overheads for each department for the year.
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## Additional information

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.
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## Additional information

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

## REQUIRED

(e) Recommend with reasons whether Janty should accept Simon's order.
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## Additional information

Janty operates a second factory. This factory manufactures two products, Bee and Cee. She has provided you with the following actual information for the last financial year.

|  | Bee | Cee | Total |
| :--- | :---: | :---: | :---: |
| Sales units | 5000 | 8000 |  |
|  |  |  |  |
| Revenue | $\$$ | $\$$ | $\$$ |
| Variable costs | $(50000$ | 96000 | 171000 |
| Allocated fixed overheads | $\underline{(22000})$ | $(62000)$ | $(112000)$ |
| Profit for the year | $\underline{3000}$ | $\underline{(12000})$ | $\underline{(34000})$ |

## REQUIRED

(f) Calculate the break-even point in units for Bee.
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## Additional information

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.
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