

# **Cambridge International Examinations** Cambridge International Advanced Subsidiary and Advanced Level

|             | CANDIDATE<br>NAME   |                   |                   |
|-------------|---|-------------------|-------------------|
|             | CENTRE<br>NUMBER  | CANDIDATE         |                   |
| *           | ACCOUNTING  |                   | 9706/21           |
| 074         | Paper 2 Structu   | ured Questions    | May/June 2018     |
| 84751       | Candidates answer on the Question Paper.<br>No Additional Materials are required. |                   | 1 hour 30 minutes |
| -<br>-<br>* |   | NSTRUCTIONS 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 **19** printed pages and **1** blank page.

- 1 Ashir, Bo and Chan are in partnership. The partnership agreement includes the following terms:
  - 1 Profits and losses are shared in the ratio of the partners' capital accounts.
  - 2 Interest on capital is 6% per annum.
  - 3 Interest on drawings is 5% calculated on each partner's total annual drawings.
  - 4 Partners' loan interest is 12% per annum.
  - 5 Chan receives a salary of \$1000 per month.

The following information is available at 31 December 2016:

|                            | \$     |       |
|----------------------------|--------|-------|
| Capital accounts           |        |       |
| Ashir                      | 40 000 |       |
| Во                         | 30 000 |       |
| Chan                       | 10000  |       |
| Current accounts           |        |       |
| Ashir                      | 12300  |       |
| Во                         | 8200   |       |
| Chan                       | 2600   | debit |
| Drawings                   |        |       |
| Ashir                      | 15400  |       |
| Во                         | 12200  |       |
| Chan                       | 16400  |       |
| Fixtures and fittings      |        |       |
| Cost                       | 32400  |       |
| Provision for depreciation | 21400  |       |
| Motor vehicles             |        |       |
| Cost                       | 80 000 |       |
| Provision for depreciation | 48 000 |       |
| Loan account – Ashir       | 10000  |       |
| Gross profit               | 171620 |       |
| Operating expenses         | 54960  |       |
| Staff wages                | 32 500 |       |

## Additional information

- 1 Operating expenses include a payment of \$600 for insurance covering the 12-month period to 31 August 2017.
- 2 Staff wages owing at 31 December 2016 were \$860.
- 3 Depreciation is to be charged as follows:

| Fixtures and fittings | 10% per annum using the reducing balance method |
|-----------------------|---|
| Motor vehicles        | 20% per annum using the straight-line method    |

# REQUIRED

(a) Prepare the income statement for the partnership for the year ended 31 December 2016. Start with the given gross profit of \$171620.

....... ..... ..... ..... [5]

- [5] .....
- (c) Prepare the partners' current accounts for the year ended 31 December 2016 on the next page.
  [7]

31 December 2016.

(b) Prepare the profit and loss appropriation account for the partnership for the year ended

Current Accounts

| Chan<br>\$  |  |  |  |  |  |
|-------------|--|--|--|--|--|
| 8 8         |  |  |  |  |  |
| Ashir<br>\$ |  |  |  |  |  |
|             |  |  |  |  |  |
| Detail      |  |  |  |  |  |
| Chan<br>\$  |  |  |  |  |  |
| ⊕<br>B<br>B |  |  |  |  |  |
| Ashir<br>\$ |  |  |  |  |  |
|             |  |  |  |  |  |
| Detail      |  |  |  |  |  |

On 1 January 2017, Chan decided that he wished to retire with immediate effect. The partners agreed that as part of his settlement, he could keep one of the motor vehicles at the net book value of \$18000.

At that date it was agreed that the total value of goodwill was \$124000.

# REQUIRED

(d) Prepare a statement to calculate the bank settlement due to, or from, Chan on his retirement.

[4]

## Additional information

Following Chan's retirement, Ashir and Bo are considering converting their business to a limited company to continue the business.

## REQUIRED

(e) State two advantages to a partnership of converting to a limited company.

Ashir's brother Bilal, a sole trader with three employees, has been running his business for four years. Turnover has doubled over the past year and the business is gradually becoming very profitable.

Bilal does not maintain a full set of accounting records, but his friend has recommended that he should.

# REQUIRED

(f) Advise Bilal whether or not he should maintain a full set of accounting records. Give reasons for your answer.

[5] (g) State two reasons for maintaining a sales ledger control account. 1 ..... 2 ..... [2] [Total: 30] **2** The following information has been extracted from the books of account of FA Limited at 1 January 2016.

|   | \$     |
|---|--------|
| Motor vehicles at cost                    | 124000 |
| Motor vehicles provision for depreciation | 54 250 |

The following information is also available.

- 1 All the company's motor vehicles had been purchased on 1 January 2014.
- 2 On 1 July 2016, a new motor vehicle was purchased for \$48,000. The cost was settled by a cheque payment of \$28,000, the balance by the part exchange of an old motor vehicle.

The vehicle that was part-exchanged had cost \$36000.

3 The company policy is to depreciate motor vehicles at 25% per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase, but none in the year of sale.

# REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 December 2016. (Dates are not required.)

| \$ | \$ |
|----|----|
|    |    |
|    |    |
|    |    |
|    |    |
|    |    |
|    |    |

#### Motor vehicles at cost

# Motor vehicles provision for depreciation

| \$ | \$ |
|----|----|
|    |    |
|    |    |
|    |    |
|    |    |
|    |    |
|    |    |

# Disposal of non-current assets

| \$ | \$ |
|----|----|
|    |    |
|    |    |
|    |    |
|    |    |
|    |    |
|    |    |

| Workings |  |
|----------|--|
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(b) Analyse the effect on the profit for the year ended 31 December 2016 if FA Limited had always used the **straight-line method** of depreciation at **20%** per annum. Show your workings.

|     | [5]   |
|-----|---|
| (c) | Explain <b>two</b> accounting concepts that apply to making the annual charge for depreciation. |
|     | 1   |
|     |   |
|     |   |
|     | 2   |
|     |   |
|     | [4]   |
|     | [Total: 15]   |

# PLEASE TURN OVER

**3** Anna has obtained the following data at 31 December 2016 in respect of Ravi, a possible new customer.

| Trade receivables<br>Cash and cash equivalents<br>Inventory<br>Trade payables<br>Other figures obtained are: | \$<br>20 640<br>4 840 debit<br>38 100<br>28 760     |
|--|---|
| Sales for the year<br>Inventory at 1 January 2016  | 331750<br>46200                                     |
| Ravi has a mark-up of 25%.   |   |
| REQUIRED   |   |
| (a) Calculate the following ratios   | s for Ravi's business to <b>two</b> decimal places: |
| (i) Current ratio  |   |
|  |   |
|  |   |
|  |   |
|  | [2]   |
| (ii) Liquid (acid test) ratio  |   |
|  |   |
|  |   |
|  |   |
|  | [2]   |
| (iii) Rate of inventory turnov   | /er   |
|  |   |
|  |   |
|  |   |
|  |   |
|  |   |

[3]

Anna has also obtained the following data in respect of Yuan, another possible customer.

| Current ratio              | 3.82:1              |
|----------------------------|---------------------|
| Liquid (acid test) ratio   | 1.63:1              |
| Rate of inventory turnover | 6.69 times per year |

Anna's main concern when choosing the customer is that they should pay her promptly.

# REQUIRED

(b) Advise Anna which customer she should choose. Justify your answer.

[5]

(c) State three limitations to a business of using ratio analysis.

| 1 |             |
|---|-------------|
|   |             |
|   |             |
|   |             |
|   |             |
| 3 |             |
|   |             |
|   | [3]         |
|   | [Total: 15] |

4 Zinan is a manufacturer and makes a single product. He currently uses marginal costing.

The following budgeted information is available for two years.

|                 | Year 1 | Year 2 |
|-----------------|--------|--------|
|                 | \$     | \$     |
| Direct labour   | 38 500 | 45 500 |
| Direct material | 24750  | 29250  |
| Factory costs   | 13750  | 15250  |
|                 | Units  | Units  |
| Sales           | 10 000 | 11000  |
| Production      | 11000  | 13000  |

The following information is also available.

- 1 Of the factory costs, \$5500 are fixed for each year and the remainder are variable.
- 2 Variable cost per unit is not expected to change.
- 3 Fixed selling costs are \$3500 for Year 1. These are expected to increase by 2% for Year 2.
- 4 Variable selling costs are expected to be 5% of the sales revenue for each year.
- 5 The selling price is \$18 per unit.
- 6 There was no opening inventory in Year 1.

## REQUIRED

(a) Calculate the budgeted variable cost of production per unit.

[2]

[6] (c) Calculate the budgeted production cost per unit for each year. [2] .....

(b) Calculate the total budgeted contribution for each year.

Zinan is considering using absorption costing.

## REQUIRED

(d) State two limitations of absorption costing.

(e) Calculate the total budgeted profit for each of the two years using absorption costing.

| <br>    |
|---------|
| <br>    |
|         |
| <br>    |
| <br>    |
| <br>[7] |

(f) Explain why profit calculated using absorption costing would be different to profit calculated using marginal costing.

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|------|
|      |
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|      |
| <br> |
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| <br> |
| [3]  |
|      |

During actual production of a large order for 3000 units, Zinan discovers that the customer has ceased trading. If he cannot find another customer for these units he will have to decrease production for Year 1 and reduce staff.

To prevent this from happening, Zinan is proposing to attract new customers for the 3000 units with a marketing campaign.

The following information is available in respect of **only** the 3000 units.

- 1 The budgeted selling price would be reduced by 7.5%.
- 2 Advertising costs would be \$1000.
- 3 There would be additional direct labour costs of \$0.15 per unit.

#### REQUIRED

(g) Prepare a statement to calculate the effect on profit for Year 1 if the proposal is accepted.

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|---------|
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|         |
| <br>[3] |

(h) Advise Zinan whether or not he should go ahead with the marketing campaign. Justify your answer using **both** financial and non-financial factors.

[5] [Total: 30]

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