

CANDIDATE
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CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/22

Paper 2 Structured Questions

May/June 2017

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 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 **16** printed pages and **4** blank pages.

- 1 B Limited is a private limited company trading as a wholesaler of garden equipment. The draft trial balance at 30 June 2016 has been extracted from the books of account and is shown below.

| | Debit \$ | Credit \$ |
|---|----------------|----------------|
| Bank loan | | 26 400 |
| Bank | | 14 040 |
| Cash | 650 | |
| Directors' remuneration | 53 200 | |
| Fixtures and fittings | | |
| Cost | 18 110 | |
| Provision for depreciation at 1 July 2015 | | 5 310 |
| Land and buildings | | |
| Cost | 135 000 | |
| Provision for depreciation at 1 July 2015 | | 21 840 |
| Motor vehicles | | |
| Cost | 41 600 | |
| Provision for depreciation at 1 July 2015 | | 19 200 |
| Interest paid | 5 920 | |
| Inventory at 1 July 2015 | 62 400 | |
| Office costs | 18 330 | |
| Property costs | 21 940 | |
| Purchases | 268 200 | |
| Retained earnings | | 30 570 |
| Revenue | | 563 800 |
| Selling and distribution costs | 36 120 | |
| Share capital (ordinary shares of \$1 each) | | 60 000 |
| Trade payables | | 39 810 |
| Trade receivables | 71 000 | |
| Wages and salaries | <u>48 500</u> | |
| | <u>780 970</u> | <u>780 970</u> |

Additional information

- The value of inventory at 30 June 2016 was \$70 300 at cost.
- Land and buildings at 30 June 2016 were as follows:

| | \$ |
|-----------|--------|
| Land | 70 000 |
| Buildings | 65 000 |

- Depreciation is to be provided as follows:

| Asset | Annual Rate | Method | Charge to |
|-----------------------|-------------|------------------|--------------------------------|
| Fixtures and fittings | 15% | Reducing balance | Office costs |
| Buildings | 2% | Straight-line | Property costs |
| Motor vehicles | 25% | Reducing balance | Selling and distribution costs |

4 Wages and salaries are to be charged as follows:

| | |
|--------------------------------|-----|
| Selling and distribution costs | 60% |
| Office costs | 40% |

5 B Limited took out a 5% debenture (repayable between 2021 and 2025) for \$50 000 on 30 June 2016 and repaid the bank loan in full. Neither of these transactions has yet been recorded in the books of account.

6 A prepayment of \$1240 is to be accounted for on property costs at 30 June 2016.

7 An accrual of \$2680 is to be accounted for on selling and distribution costs at 30 June 2016.

8 The directors require a provision for doubtful debts to be created representing 2% of trade receivables at 30 June 2016, to be charged to office costs.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2016. Use the space on the next page for your workings.

B Limited
Income Statement for the year ended 30 June 2016

| | \$ | \$ |
|--------------------------------|----|----|
| Revenue | | |
| Cost of sales | | |
| Opening inventory | | |
| Purchases | | |
| | | |
| Closing inventory | | |
| Gross profit | | |
| Deduct: expenses | | |
| Directors' remuneration | | |
| Office costs | | |
| Property costs | | |
| Selling and distribution costs | | |
| Profit from operations | | |
| Finance costs | | |
| Profit for the year | | |

Use this space for your workings.

[17]

- (b) Prepare an extract showing the current assets section of the statement of financial position at 30 June 2016.

B Limited
Extract from Statement of Financial Position at 30 June 2016

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[5]

(c) Explain why a company should provide for depreciation on its non-current assets.

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(d) Explain **two** differences between ordinary shares and preference shares.

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[Total: 30]

2 Wiggins has provided the following summary financial information for the year ended 30 April 2017:

| | |
|----------------------------|-----------|
| | \$ |
| Bank overdraft | 19 000 |
| Cash in hand | 1 725 |
| Inventory at 1 May 2016 | ? |
| Inventory at 30 April 2017 | 152 000 |
| Purchases | 860 000 |
| Revenue | 1 042 500 |
| Trade receivables | 31 275 |

Additional information

- 1 40% of sales are on a cash basis. All remaining sales are on a credit basis.
- 2 All purchases are on credit.
- 3 The gross margin on all sales was 20%.
- 4 The trade payables turnover (days) for the year ended 30 April 2017 was 54.75 days (to two decimal places).

REQUIRED

(a) State **two** limitations of using ratio analysis to analyse the performance of a business.

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2

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(b) Calculate the current ratio to **two** decimal places.

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(c) Calculate the liquid (acid test) ratio to **two** decimal places.

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(d) Calculate the rate of inventory turnover (times).

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3 Amit, Wang and Susi have been trading in partnership for several years and prepare their financial statements annually to 31 March. They have never had a partnership agreement.

REQUIRED

(a) State **four** provisions which would apply in the absence of a partnership agreement.

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[4]

Question 3(b) is on the next page.

Additional information

The statement of financial position for the partnership at 31 March 2016 was as follows:

Amit, Wang and Susi
Statement of Financial Position at 31 March 2016

| | \$ |
|--------------------------------------|----------------|
| Assets | |
| Non-current assets | |
| Freehold premises | 109 000 |
| Fixtures and fittings | <u>64 900</u> |
| | <u>173 900</u> |
| Current assets | |
| Trade receivables | 14 500 |
| Bank account | <u>5 600</u> |
| | <u>20 100</u> |
| Total assets | <u>194 000</u> |
| | |
| Capital and liabilities | |
| Capital accounts | |
| Amit | 40 000 |
| Wang | 40 000 |
| Susi | <u>40 000</u> |
| | <u>120 000</u> |
| Current accounts | |
| Amit | 27 600 |
| Wang | 18 500 |
| Susi | <u>22 200</u> |
| | <u>68 300</u> |
| Current liabilities | |
| Trade payables | 5 100 |
| Other payables | <u>600</u> |
| | <u>5 700</u> |
| Total capital and liabilities | <u>194 000</u> |

On 1 April 2016 Amit retired from the partnership and the following was agreed:

- 1 Goodwill was valued at \$42 000. A goodwill account is not to be maintained in the books of account.
- 2 Assets were revalued at the following amounts:

| | \$ |
|-----------------------|---------|
| Freehold premises | 120 000 |
| Fixtures and fittings | 62 200 |
| Trade receivables | 13 700 |
- 3 Amit received \$15 000 from the partnership bank account. The remaining balance owed to him was left as an interest-free loan to the partnership to be repaid by 31 March 2021.
- 4 Wang and Susi agreed to continue in partnership and to share profits and losses equally.

(b) Calculate the break-even point in units for the quarter.

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..... [2]

Additional information

The directors' target profit is \$20 000 per quarter. They were concerned that the profit for the quarter ended 30 September 2016 was below the target profit.

The directors realised that action must be taken in order to increase the profit.

In order to improve the profits they are considering two proposals.

Proposal A

- 1 Retain the current selling price.
- 2 Reduce the number of employees in administrative staff, saving \$48 000 per annum.
- 3 Source less expensive materials to reduce direct material cost by \$0.10 per unit.
- 4 Reduce the sales commission by 2%.

Proposal B

- 1 Improve the product and increase the selling price by 10%. This will increase the direct material cost by \$0.15 per unit.
- 2 Spend \$5000 per quarter on advertising to raise awareness of the improved product.
- 3 Reduce the numbers of administrative staff, saving \$48 000 per annum.
- 4 Retain the sales commission at 10%.

(d) Recommend to the directors which proposal they should adopt. Justify your answer by discussing the benefits and drawbacks of **each** proposal.

Recommendation

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Proposal A

Benefits

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Drawbacks

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Proposal B

Benefits

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Drawbacks

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[8]

(e) State **three** advantages and **three** disadvantages of a system of budget preparation.

Advantages

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Disadvantages

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[6]

[Total: 30]

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