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## 9706/21

May/June 2021

**1 hour 30 minutes**

You must answer on the question paper.

No additional materials are needed.

- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any rough working.
- You may use a calculator.
- You should present all accounting statements in good style.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

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**[Turn over**

- 1 Suyin owns a small retail business. She has not maintained full accounting records.

**REQUIRED**

- (a) State **two** reasons why the owner of a small business may decide not to maintain full accounting records.

1 .....

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2 .....

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[2]

**Additional information**

Suyin has been informed that the accounting concepts of matching and prudence must be followed when preparing financial statements.

**REQUIRED**

- (b) Explain how these accounting concepts are applied when a business prepares financial statements.

Matching

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Prudence

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[4]

**Additional information**

Suyin has provided the following information.

- 1 On 1 August 2019 the business's assets and liabilities included:

|                                     | \$     |
|-------------------------------------|--------|
| Fittings and equipment at valuation | 18 500 |
| Inventory                           | 11 440 |
| Other payables: shop rent           | 510    |
| Other receivables: insurance        | 290    |
| Trade payables                      | 3 970  |

- 2 Summary of bank statements for the year ended 31 July 2020.

|                                                            | \$     |
|------------------------------------------------------------|--------|
| Receipts                                                   |        |
| Cash sales banked                                          | 79 480 |
| Proceeds from the sale of equipment (net book value \$490) | 550    |
| Payments                                                   |        |
| Drawings                                                   | 24 070 |
| Shop rent                                                  | 3 580  |
| General expenses                                           | 16 810 |
| Carriage inwards                                           | 610    |
| Insurance                                                  | 2 950  |
| Trade payables (after deducting 2.5% cash discounts)       | 46 800 |

- 3 Cash account for the year ended 31 July 2020.

|             | \$            |             | \$            |
|-------------|---------------|-------------|---------------|
| Balance b/d | 420           | Bank        | 79 480        |
| Cash sales  | 96 000        | Wages       | 15 430        |
|             |               | Purchases   | 1 320         |
|             |               | Balance c/d | 190           |
|             | <u>96 420</u> |             | <u>96 420</u> |
| Balance b/d | 190           |             |               |

- 4 During the year ended 31 July 2020

Goods had been returned to suppliers, \$1280.  
All sales were made on a cash basis.

- 5 At 31 July 2020

Suppliers were owed \$4560.  
Inventory was valued at \$18720.  
Fittings and equipment was valued at \$15860.

**REQUIRED**

(c) Calculate **total** purchases for the year ended 31 July 2020.

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..... [5]

(d) Prepare the income statement for the year ended 31 July 2020.

Workings:

**5**

Suyin  
Income statement for the year ended 31 July 2020

[illegible]

[10]

**Additional information**

Suyin has the opportunity to move her business to a busier location. The following information is available.

- 1 The rent of the new shop premises will be three times the current annual charge.
- 2 Annual sales could be increased by 10% on the figure for the year ended 31 July 2020.
- 3 She intends to achieve a gross margin of 60%.
- 4 She will need to apply for a bank loan of \$16 000 at 8% per annum interest to cover the costs of changing location. The loan will be repayable over a two-year period.
- 5 Discounts received will no longer be available.
- 6 All other expenses will remain unchanged and there will be no sources of additional income.

**REQUIRED**

- (e) Calculate how much profit per annum will be made if Suyin moves her business to the new location.

|                             | \$ |
|-----------------------------|----|
| Revised gross profit        |    |
|                             |    |
|                             |    |
|                             |    |
|                             |    |
|                             |    |
| Revised profit for the year |    |

[4]

- (f) Advise Suyin whether or not she should change her business's location. Justify your answer considering **both** financial and non-financial factors.

..... [5]

[Total: 30]

2 Karis and Lara are in partnership.

(a) State **two** reasons why partners may each have a separate capital account and current account.

- 1 .....
- .....
- 2 .....
- .....

[2]

### Additional information

Karis and Lara share profits and losses in the ratio 3:2 respectively.

They decided to admit Megan as a partner on 1 February 2021.

On that date the statement of financial position was as follows.

|                                      |               |               |
|--------------------------------------|---------------|---------------|
| Assets                               | \$            | \$            |
| Non-current assets at net book value |               |               |
| Motor vehicles                       | 43 500        |               |
| Furniture and equipment              | <u>16 200</u> |               |
|                                      |               | 59 700        |
| Current assets                       |               |               |
| Trade receivables                    |               | <u>18 410</u> |
| Total assets                         |               | <u>78 110</u> |
| Capital and liabilities              |               |               |
| Capital accounts                     |               |               |
| Karis                                | 35 700        |               |
| Lara                                 | <u>24 500</u> |               |
|                                      |               | 60 200        |
| Current accounts                     |               |               |
| Karis                                | 3 110         |               |
| Lara                                 | <u>(540)</u>  |               |
|                                      |               | 2 570         |
| Current liabilities                  |               |               |
| Trade payables                       | 11 230        |               |
| Bank overdraft                       | <u>4 110</u>  |               |
|                                      |               | <u>15 340</u> |
| Total capital and liabilities        |               | <u>78 110</u> |

The partners agreed the following on Megan's admission.

- 1 Current accounts would no longer be used.
- 2 Karis took over a motor vehicle for private use with a net book value of \$18 400 at an agreed value of \$15 000.
- 3 Goodwill was valued at \$48 000. No goodwill account was to be maintained in the partnership's books of account.
- 4 Profits and losses are to be shared in the ratio Karis : Lara : Megan 7 : 5 : 3 respectively.
- 5 Megan introduced a motor vehicle valued at \$23 000 as part of her capital contribution.

After making the adjustments, it was agreed that Megan should pay sufficient cash into the business bank account to make her total capital equal to that of Lara.

**REQUIRED**

- (b) Prepare, on the **next page**, the capital accounts of the partners to record the admission of Megan as a partner.

Capital accounts

|  | Karis | Lara | Megan |  | Karis | Lara | Megan |
|--|-------|------|-------|--|-------|------|-------|
|  | \$    | \$   | \$    |  | \$    | \$   | \$    |
|  |       |      |       |  |       |      |       |
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[8]

**Additional information**

In the new partnership agreement Lara is to receive a salary of \$12 000 per annum.

Megan is hoping to achieve a 25% return on her capital employed (ROCE).

**REQUIRED**

- (c) Calculate the minimum profit the partnership must make in order for Megan to achieve this ROCE.

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..... [3]

- (d) State **two** possible disadvantages to existing partners of admitting a new partner.

1 .....

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2 .....

.....

[2]

[Total: 15]

- 3 C Limited's statement of financial position at 31 December 2020 is shown with comparative figures at 31 December 2019.

|                              | At 31 December |       |
|------------------------------|----------------|-------|
|                              | 2020           | 2019  |
|                              | \$000          | \$000 |
| Assets                       |                |       |
| Non-current assets           | 2621           | 2217  |
| Current assets               |                |       |
| Inventory                    | 61             | 47    |
| Trade and other receivables  | 29             | 38    |
| Cash and cash equivalents    | 2              | 31    |
|                              | 92             | 116   |
| Total assets                 | 2713           | 2333  |
| Equity and liabilities       |                |       |
| Equity                       |                |       |
| Ordinary shares              | 1800           | 1200  |
| Share premium                | -              | 220   |
| Retained earnings            | 401            | 624   |
| Revaluation reserve          | 300            | -     |
| Total equity                 | 2501           | 2044  |
| Non-current liabilities      |                |       |
| 8% Debentures (2025)         | 160            | 250   |
| Current liabilities          |                |       |
| Trade and other payables     | 52             | 39    |
| Total equity and liabilities | 2713           | 2333  |

The following information is also available.

- 1 The company's issued capital consists of ordinary shares of \$0.25 each.
- 2 On 1 January 2020 the directors revalued the property upwards by \$300 000.
- 3 There were no purchases or disposals of non-current assets during the year.
- 4 On 1 July 2020 the directors made a bonus issue of ordinary shares.
- 5 There were no other changes in share capital during the year.

### REQUIRED

- (a) Explain **two** reasons for making a bonus issue of shares.

1 .....

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2 .....

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[4]

- (b) Calculate the number of bonus shares issued on 1 July 2020.

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..... [2]

- (c) Prepare the journal entry recording the bonus issue on 1 July 2020. A narrative **is** required.

Journal

|  | Dr    | Cr    |
|--|-------|-------|
|  | \$000 | \$000 |
|  |       |       |
|  |       |       |
|  |       |       |
|  |       |       |
|  |       |       |

[4]

- (d) Identify **three** factors that directors of a company should consider when deciding on the amount of a proposed dividend.

1 .....

2 .....

3 ..... [3]

**Additional information**

The directors of C Limited wish to propose a dividend of \$0.01 per share on all shares in issue at 31 December 2020.

**REQUIRED**

- (e) Calculate the amount of the proposed dividend.

.....

.....

.....

..... [2]

[Total: 15]

- 4 P Limited is a manufacturing business.

**REQUIRED**

- (a) Define the following terms:

- (i) Direct costs

.....  
..... [1]

- (ii) Stepped costs

.....  
..... [2]

- (b) State the formula for finding the margin of safety in units.

.....  
..... [1]

- (c) Explain the term 'limiting factor' when using marginal costing.

.....  
.....  
.....  
..... [2]

**Additional information**

P Limited manufactures a single product. The factory has the capacity to make 40 000 units per month. All production is sold.

The following budgeted information is available for December 2021.

|                           |                                   |
|---------------------------|-----------------------------------|
| Sales                     | 30 000 units at \$48 per unit     |
| Direct materials per unit | 4.5 m at \$4 per metre            |
| Direct labour per unit    | 3 hours at \$8.50 per labour hour |
| Fixed costs               | \$112 000                         |

The company has a target profit of \$40 000 per month.

**REQUIRED**

- (d) Calculate the number of units to be sold for the company to achieve its target profit for December 2021.

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..... [3]



## REQUIRED

- (f) Calculate the monthly profit to be made from proposal A.

[9]

### Additional information

### Proposal B

The directors are also considering a proposal to produce a simpler version of the product with a selling price of \$37 per unit. This proposal would require 76 000 labour hours per month. They estimate that 38 000 units per month could be sold.

This will produce a monthly profit of \$49 500.

## REQUIRED

- (g)** Advise the directors which proposal they should choose. Justify your choice by considering **both** financial and non-financial factors.

..... [7]

[Total: 30]

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