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9706/23

May/June 2021

1 hour 30 minutes

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 [].

DC (DH) 201943/2
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[Turn over

- 1 Adam owns a retail business. He is aware that he must follow certain accounting concepts when preparing his business's financial statements.

REQUIRED

- (a) Explain how each of the following concepts is applied when preparing a business's financial statements.

(i) Consistency

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(ii) Realisation

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(iii) Materiality

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Additional information

Adam has completed the trading section of the income statement. However, some errors had been made.

Income statement for the year ended 31 December 2020

	\$	\$
Revenue		186 500
Less returns outwards		<u>(3 180)</u>
		183 320
Opening inventory	14 830	
Purchases	93 710	
Less returns inwards	<u>(2 940)</u>	
Add carriage inwards	730	
	106 330	
Less closing inventory	<u>(12 670)</u>	
Cost of sales		<u>93 660</u>
Gross profit		<u>89 660</u>

The following information is also available.

- 1 No record had been made of goods taken for own use by Adam, \$580.
- 2 Closing inventory included 14 damaged items which cost \$30 each. Six of these items cannot be sold and are to be regarded as waste. The remaining items could be sold for \$35 each but will incur total repairs cost of \$56.

REQUIRED

(b) Calculate a revised figure for gross profit for the year ended 31 December 2020.

[7]

Additional information

The following balances were extracted from the books of account of Adam's business on 31 December 2020.

	\$	
Discounts	1 580	credit
Furniture and equipment		
cost	18 220	
provision for depreciation (at 1 January 2020)	5 370	
Marketing expenses	4 850	
Motor vehicle		
cost	16 800	
provision for depreciation (at 1 January 2020)	13 900	
Office expenses	2 950	
Premises		
cost	160 000	
provision for depreciation (at 1 January 2020)	9 600	
Provision for doubtful debts (at 1 January 2020)	530	
Rent receivable	6 640	
Repairs and maintenance	1 970	
Trade receivables	9 800	
Wages and salaries	31 280	

The following information is also available.

- 1 Repairs and maintenance included a payment of \$380 for installation of new equipment on 1 January 2020.
- 2 The provision for doubtful debts should be maintained at 5% of trade receivables.
- 3 Rent receivable of \$1800 for the three months ended 28 February 2021 had not been received.
- 4 A payment of \$2000 for a five-month advertising campaign which began on 1 November 2020 was outstanding.
- 5 Depreciation should be provided on non-current assets as follows:
 Furniture and equipment at 20% per annum using the reducing balance method
 Premises at 2% per annum using the straight-line method
 No depreciation is charged on non-current assets in the year of sale.
- 6 No record had been made of the sale of the only motor vehicle on 1 December 2020 for \$1350.

Additional information

Adam would like to improve his business's profitability. He has been considering the following proposals.

Proposal 1: Reducing inventory levels

Proposal 2: Increasing mark-up by 5% on the current level

REQUIRED

- (d)** Advise Adam which proposal he should choose. Justify your answer by considering **both** proposals.

[illegible]

[7]

[Total: 30]

- 2 Hamid prepares control accounts to check the accuracy of his business's purchases and sales ledgers.

REQUIRED

- (a) Explain **two** benefits to a business of using control accounts other than checking the arithmetical accuracy of ledger accounts.

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[4]

Additional information

On 31 January 2021 Hamid provided the following information:

- 1 The balance of the sales ledger control account on 1 January 2021 was \$17 820.
- 2 Totals for January 2021 from books of prime entry

	\$
Cash book	
Discount allowed	430
Receipts from trade receivables	16 230
General journal	
Contra entries with purchases ledger	890
Sales journal	18 440
Sales returns journal	310

- 3 On 31 January 2021 a credit customer had overpaid his account by \$170.

REQUIRED

(b) Prepare the sales ledger control account for January 2021.

Sales ledger control account

	\$		\$

[6]

Additional information

On 31 January 2021 the total of balances in the purchases ledger was \$12 860, but the balance of the purchases ledger control account on this date was \$12 980.

The following errors were discovered.

- 1 The total of the discounts received column of \$110 had not been posted from the cash book.
- 2 The total of the purchases returns journal had been overstated by \$250.
- 3 Interest of \$130 charged by a supplier because of an overdue balance had been debited to the supplier's account.

REQUIRED

(c) Prepare statements to show corrected totals for:

(i) the purchases ledger balances

Correction of purchases ledger balances

Details	\$
Incorrect total	12 860

[2]

(ii) the purchases ledger control account balance

Correction of purchases ledger control account balance

Details	\$
Incorrect balance	12 980

[3]

[Total: 15]

- 3 Cherry, Winston and Yupar were in partnership sharing profits and losses in the ratio 3:5:2. The partners decided to dissolve their partnership on 1 December 2020. On this date the partnership's statement of financial position was as follows.

Assets	\$	\$
Non-current assets at net book value		
Premises	97 000	
Furniture and equipment	<u>22 000</u>	
		119 000
Current assets		
Inventory		<u>17 400</u>
Total assets		<u>136 400</u>
Capital and liabilities		
Capital accounts		
Cherry	18 300	
Winston	54 900	
Yupar	<u>26 700</u>	
		99 900
Current accounts		
Cherry	(5 740)	
Winston	2 290	
Yupar	<u>820</u>	
		(2 630)
Non-current liability		
Loan from Yupar		18 000
Current liabilities		
Trade payables	14 800	
Bank overdraft	<u>6 330</u>	
		<u>21 130</u>
Total capital and liabilities		<u>136 400</u>

The following information is also available.

- 1 Winston took over the equipment at a valuation of \$7200.
- 2 Premises and furniture were sold for \$61 100 and a cheque for this amount was received.
- 3 Inventory was sold at a loss of \$5200. A cheque was received for the amount.
- 4 Trade payables were settled in full by cheque after deducting a 5% cash discount.
- 5 The expenses of dissolution were paid by cheque, \$2140.
- 6 The amounts owed by, or to, the partners were settled by cheque.

REQUIRED

- (a) Prepare the realisation account to show the profit or loss made on the dissolution of the partnership.

Realisation account

	\$		\$

[7]

- (b) Prepare, on the **next page**, the capital accounts of the partners recording the dissolution and final settlement of the amounts owed to, or by, each partner.

Capital accounts

	Cherry	Winston	Yupar		Cherry	Winston	Yupar
	\$	\$	\$		\$	\$	\$

Additional information

The partners had decided to dissolve their partnership because of disagreements on important decisions.

REQUIRED

(c) State **three** other reasons why a partnership might be dissolved.

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- 2
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- 3
-

[3]

[Total: 15]

- 4 T Limited manufactures a single product. The following budgeted information is available.

	Per unit \$
Direct materials	8.40
Direct labour	14.50
Other variable costs	2.30
Fixed costs	8.00

Each unit is sold for \$36. Budgeted monthly production and sales are 1200 units.

REQUIRED

- (a) Calculate the monthly break-even point in units.

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- (b) Calculate the margin of safety:

- (i) in units

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..... [1]

- (ii) in revenue

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..... [1]

- (c) Identify **three** assumptions made when using break-even analysis.

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[3]

Additional information

In January 2021 the company made and sold 1120 units.

REQUIRED

(d) (i) Calculate the contribution to sales ratio.

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..... [1]

(ii) Calculate the profit made in January 2021.

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..... [2]

Additional information

In March 2021 a machine fault meant that only 75% of budgeted output could be produced. The directors considered two options.

Option A

- 1 Reduce normal output by 25%; as a result, materials cost would be affected because trade discount of 20% on bulk orders would not be available. All other costs would remain the same.
- 2 Buy in units from a competitor at \$27.20 per unit. The competitor can supply a maximum of 250 units and will charge \$125 for delivering this quantity.

Option B

- 1 Hire a replacement machine at a cost of \$1600 for the month.
- 2 The replacement machine could make an additional 200 units per month.
- 3 All other costs would remain the same.

REQUIRED

(e) Calculate the profit for March 2021 for:

(i) Option A

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(ii) Option B

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- (f) Advise the directors which option they should choose. Justify your advice by considering **both** options.

[5]

Additional information

Recently a system of budgetary control has been introduced by T Limited. However, there have been concerns that the system has not worked well.

REQUIRED

(g) State **three** limitations of budgetary control.

- 1
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- 2
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- 3
-

[3]

[Total: 30]

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