

CANDIDATE
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ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 2014

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 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 **14** printed pages and **2** blank pages.

- 1 The following is the draft statement of financial position of Chan Ya Wen, a sole trader, at 31 May 2014.

Statement of Financial Position at 31 May 2014

	\$000
Assets	
Non-current assets	
Buildings at valuation	500
Equipment at net book value	240
Motor vehicles at net book value	<u>400</u>
	<u>1140</u>
Current assets	
Inventories	55
Trade receivables	34
Other receivables	4
Cash and cash equivalents	<u>2</u>
	<u>95</u>
 Total assets	 <u>1235</u>
 Capital and Liabilities	
Opening capital	900
Add profit for the year	<u>250</u>
	1150
Less drawing	<u>75</u>
Closing capital	<u>1075</u>
 Non-current liabilities	
Loan	<u>100</u>
 Current liabilities	
Trade payables	52
Other payables	<u>8</u>
	<u>60</u>
 Total capital and liabilities	 <u>1235</u>

Additional information

After preparation of the draft statement of financial position the following errors were discovered:

- 1 A purchase credit note received for \$12 000 had been completely omitted from the books.
- 2 Inventory at 31 May 2014, cost \$6000, was found to be damaged. A customer has agreed to buy the goods for \$2500. Delivery costs will be \$250.
- 3 The loan was received on 1 December 2013. Loan interest of 4% per annum has not been paid.
- 4 During the year vehicle repairs of \$2000 had been incorrectly debited to the motor vehicles account. Motor vehicles have been depreciated by 25% per annum on the year end value.

- 5 On 1 May 2014 a motor vehicle with a net book value of \$16 000 had been badly damaged in a collision. No entry has yet been made in the accounts for this. The insurance company has agreed to pay \$13 000 in compensation. The trader will receive a further \$1200 for the scrap value.
- 6 On 27 May 2014 a credit customer was declared bankrupt and it was decided to write off the \$8000 owing. No record in the accounts has yet been made.

REQUIRED

- (a)** Prepare a statement to show the corrected profit for the year ended 31 May 2014.

[10]

(b) Prepare a corrected statement of financial position at 31 May 2014.

[12]

Additional information

At 31 July 2014 Cha Ya Wen had a debit balance of \$8000 in the bank column of his cash book. His bank statement showed a credit balance of \$5600 at the same date.

On comparing the cash book with the bank statement the following discrepancies were found:

- 1 Bank charges of \$150 appeared in the bank statement but had not been entered in the cash book.
- 2 A credit of \$450 for dividends received had not been entered in the cash book.
- 3 Cheques received from customers amounting to \$3500 had been entered in the cash book but had not yet been credited by the bank.
- 4 A cheque for \$1200 received from a debtor had been returned by the bank marked 'insufficient funds for payment'.
- 5 Cheques issued by the business amounting to \$2000 were recorded in the cash book but did not appear in the bank statement.

REQUIRED

(c) Update the bank columns of Cha Ya Wen's cash book for the month of July 2014.

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..... [4]

(d) Prepare a bank reconciliation statement as at 31 July 2014.

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..... [4]

[Total: 30]

- 2 Aiden and Beatrice are in partnership. They share profits and losses in the ratio 2:1 and prepare financial statements to 31 March. Their balances at 31 March 2013 were:

	Capital accounts	Current accounts
	\$	\$
Aiden	38 500	4 250 Cr
Beatrice	27 600	2 975 Cr

On 1 April 2013 Charles was admitted to the partnership on the following terms.

- 1 He introduced \$100 000 capital in cash and it was agreed that he would receive the same level of profits as Beatrice. The profit sharing ratio between Aiden, Beatrice and Charles would be 2:1:1.
- 2 Goodwill was valued at \$120 000 and it was decided that goodwill was not to be retained in the books of account.
- 3 Each partner was to receive an annual salary of \$30 000.
- 4 Interest on capital was to be paid at 8% per annum.
- 5 No interest was to be charged on drawings up to \$50 000. Interest at 6% per annum was to be charged on any additional drawings.

For the year ended 31 March 2014:

- 1 The partnership made a profit of \$325 000 before adjusting for the following items:

A debt of \$5000 which had been written off as irrecoverable in the previous year was recovered.

A cheque for \$15 000 received from a debtor in January 2014 was dishonoured and the debt is to be written off.

During the year Charles took a family holiday costing \$2500. This was paid from the partnership bank account and shown as an expense.

- 2 Total drawings for the year were Aiden \$70 500; Beatrice \$46 900; Charles \$34 750.

REQUIRED

(a) Prepare the partners' capital accounts for the year ended 31 March 2014.

[7]

(b) Prepare the appropriation account for the year ended 31 March 2014.

[illegible]

[11]

[11]

[Total: 30]

- 3 Zumbi Limited manufactures three products, Ess, Tee and Ewe. The following information is available for December 2014.

	Ess (\$)	Tee (\$)	Ewe (\$)
Selling price	22	28	31
Direct materials (\$2 per metre)	6	6	8
Direct labour (\$8 per hour)	8	10	12
Variable overheads	4	5	6

Maximum demand for the month (in units):

Ess	19 500
Tee	16 500
Ewe	15 000

REQUIRED

- (a) Calculate the contribution per unit for each product.

	Ess (\$)	Tee (\$)	Ewe (\$)

[7]

Additional information

- Due to the production process, Zumbi Limited must manufacture batches of three units of Ess for every two units of Tee.
- Ewe is always produced in batches of five.

REQUIRED

(b) Calculate the contribution per batch.

	Ess (\$)	Tee (\$)	Ewe (\$)

[7]

Additional information

- 1 Zumbi Limited has a contract to supply 7000 units of Ewe each month. The company must honour this contract.
- 2 The maximum production capacity is a total of 40 000 units per month.
- 3 All goods will be sold in the month they are produced.
- 4 Annual fixed overheads are \$2 160 000.

REQUIRED

(c) Prepare a statement for December 2014 showing the maximum monthly profit.

[8]

Additional information

Zumbi Limited has the opportunity to purchase unlimited quantities of product Ewe from an outside supplier at a cost of \$30 per unit.

REQUIRED

- (d)** Discuss the advantages and disadvantages to the company if it purchases Ewes from the outside supplier.

Advantages

[illegible]

Disadvantages

[6]

(e) Advise the directors if they should purchase Ewes from the outside supplier.

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..... [2]

[Total: 30]

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