



## Cambridge International AS & A Level

CANDIDATE  
NAME

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CENTRE  
NUMBER

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### ACCOUNTING

9706/23

Paper 2 Structured Questions

October/November 2021

1 hour 30 minutes

You must answer on the question paper.

No additional materials are needed.

### INSTRUCTIONS

- 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.

### INFORMATION

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

This document has **20** pages. Any blank pages are indicated.

- 1 The following information has been extracted from the accounting records of T Limited at 30 June 2021.

- 1 Inventory at 1 July 2020 was valued at \$46 800.
- 2 Inventory at 30 June 2021 was valued at \$54 200.
- 3 The rate of inventory turnover was 8.8 times.
- 4 The gross profit margin was 45%.

**REQUIRED**

- (a) Calculate for the year ended 30 June 2021:

- (i) cost of sales

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- (ii) revenue.

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### Additional information

The following balances were extracted from the books of account at 30 June 2021.

|                                             | \$      |
|---------------------------------------------|---------|
| 8% debentures (2026–2027)                   | 96 000  |
| Administrative expenses                     | 55 900  |
| Directors' remuneration                     | 62 400  |
| Distribution costs                          | 59 200  |
| Finance costs                               | 6 350   |
| Wages and salaries                          | 88 300  |
| Trade receivables                           | 110 360 |
| Provision for doubtful debts at 1 July 2020 | 1 235   |

The following information is also available.

- The 8% debentures (2026–2027) were taken out on 1 November 2020. Interest was paid every three months in arrears, starting on 1 February 2021.
- Wages and salaries of \$3800 were owing at 30 June 2021.
- At 30 June 2021, a bonus was due to be paid to the sales director of \$12 000.
- Expenses were to be allocated as follows:

|                         | Administrative expenses | Distribution costs |
|-------------------------|-------------------------|--------------------|
| Wages and salaries      | 30%                     | 70%                |
| Directors' remuneration | 75%                     | 25%                |

- Depreciation is to be charged as follows:

|                                 |          |
|---------------------------------|----------|
| Motor vehicles for office staff | \$26 400 |
| Delivery vehicles               | \$32 800 |

- A credit customer owing \$2360 from 12 April 2021 has been declared bankrupt and the debt is to be written off to administrative expenses.
- Aged analysis of net trade receivables at 30 June 2021:

|                                           | 0–60 days | 61–90 days | Over 90 days |
|-------------------------------------------|-----------|------------|--------------|
| Percentage of total net trade receivables | 75%       | 15%        | 10%          |

- The directors wish to make a provision for doubtful debts as follows:
 

|                    |      |
|--------------------|------|
| Debts 61–90 days   | 2.5% |
| Debts over 90 days | 10%  |

The movement in the provision is to be charged to administrative expenses.

**REQUIRED**

- (b) Calculate the balance of the provision for doubtful debts at 30 June 2021.

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..... [4]

- (c) Prepare the income statement for the year ended 30 June 2021. Use the space on the **next page** for your workings.

T Limited  
Income Statement for the year ended 30 June 2021

|                         | \$ |
|-------------------------|----|
| Revenue                 |    |
| Cost of sales           |    |
| Gross profit            |    |
| Administrative expenses |    |
| Distribution costs      |    |
| Profit from operations  |    |
| Finance costs           |    |
| Profit for the year     |    |

## Workings

|                         |
|-------------------------|
| Administrative expenses |
| Distribution costs      |
| Finance costs           |
| Other workings          |

[11]

**Additional information**

The following transactions had also taken place during the year ended 30 June 2021.

| Date          | Transaction                                                                                                                                               |
|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 July 2020   | Freehold property was revalued downwards by \$10 000.                                                                                                     |
| 1 July 2020   | Made a rights issue of one ordinary share of \$2 each for every two shares held. This was offered at a premium of \$0.75. The issue was fully subscribed. |
| 1 March 2021  | Made a bonus issue of one ordinary share of \$2 each for every ten shares held. Reserves were left in the most flexible form.                             |
| 31 March 2021 | Paid a dividend of \$0.05 per share on all shares in issue at that date.                                                                                  |

**REQUIRED**

(d) Prepare the statement of changes in equity for the year ended 30 June 2021.

T Limited  
Statement of Changes in Equity for the year ended 30 June 2021

|                 | Ordinary<br>share capital<br>\$ | Share<br>premium<br>\$ | Revaluation<br>reserve<br>\$ | Retained<br>earnings<br>\$ | Total<br>\$ |
|-----------------|---------------------------------|------------------------|------------------------------|----------------------------|-------------|
| At 1 July 2020  | 440 000                         | –                      | 7 500                        | 86 320                     | 533 820     |
|                 |                                 |                        |                              |                            |             |
|                 |                                 |                        |                              |                            |             |
|                 |                                 |                        |                              |                            |             |
|                 |                                 |                        |                              |                            |             |
|                 |                                 |                        |                              |                            |             |
| At 30 June 2021 |                                 |                        |                              |                            |             |

[6]

**Additional information**

The directors make use of accounting ratios to interpret the information contained within the financial statements.

**REQUIRED**

- (e) (i) State the formula for calculating the non-current asset turnover.

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 ..... [1]

- (ii) State what information the directors would obtain from calculating the non-current asset turnover.

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- (f) State **three** limitations of ratio analysis when comparing the performance of businesses in the same industry.

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 2 .....  
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 3 .....  
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 [3]

[Total: 30]

- 2 Abbie, Ben and Cain have been in partnership for many years sharing profits and losses in the ratio 3:2:1.

The partnership's draft statement of financial position at 30 June 2021 is shown below.

Abbie, Ben and Cain  
Statement of financial position at 30 June 2021

|                               | \$             |
|-------------------------------|----------------|
| Non-current assets            |                |
| Property                      | 65 000         |
| Motor vehicles                | 52 000         |
|                               | <u>117 000</u> |
| Current assets                |                |
| Inventory                     | 18 200         |
| Trade receivables             | 13 700         |
| Bank                          | 800            |
|                               | <u>32 700</u>  |
| Total assets                  | <u>149 700</u> |
| Capital and liabilities       |                |
| Capital accounts              |                |
| Abbie                         | 60 000         |
| Ben                           | 40 000         |
| Cain                          | 20 000         |
|                               | <u>120 000</u> |
| Current accounts              |                |
| Abbie                         | 18 520         |
| Ben                           | (3 250)        |
| Cain                          | 6 230          |
|                               | <u>21 500</u>  |
| Current liabilities           |                |
| Trade payables                | 8 200          |
| Total capital and liabilities | <u>149 700</u> |

Ben retired from the partnership on 30 June 2021 and the following was agreed.

- 1 Ben should retain one of the motor vehicles at the net book value \$14 500.
- 2 The remaining motor vehicles should be revalued at \$33 000.
- 3 Property should be revalued at \$77 000.
- 4 Inventory should be revalued at \$17 000.
- 5 The value of goodwill was \$39 000 and it was not to be retained in the books of account.

Any amounts due to Ben were to be transferred to a short-term loan to be repaid from the partnership bank account within one month.

Abbie and Cain decided to continue in partnership sharing profits and losses in the ratio 3:2.

Cain agreed to pay sufficient funds into the partnership bank account so that the partners' capital account balances reflected the new profit-sharing ratio.

**REQUIRED**

(a) State **one** reason why a partnership may revalue assets on the retirement of a partner.

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 ..... [1]

(b) Prepare the revaluation account at 30 June 2021.

## Revaluation Account

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

[3]

(c) Prepare the partners' capital accounts at 30 June 2021 on the **next page**.

Capital Accounts

|  | Abbie<br>\$ | Ben<br>\$ | Cain<br>\$ |  | Abbie<br>\$ | Ben<br>\$ | Cain<br>\$ |
|--|-------------|-----------|------------|--|-------------|-----------|------------|
|  |             |           |            |  |             |           |            |
|  |             |           |            |  |             |           |            |
|  |             |           |            |  |             |           |            |
|  |             |           |            |  |             |           |            |
|  |             |           |            |  |             |           |            |
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|  |             |           |            |  |             |           |            |
|  |             |           |            |  |             |           |            |

**Additional information**

Ben has indicated that he may be willing to leave \$10 000 as an interest-free loan, but he requires any other amount due to be paid within one month.

In order to maintain sufficient working capital, Abbie and Cain are considering two options to finance the settlement due to Ben.

Option 1: Request an overdraft facility from the bank.

Option 2: Ask Ben to consider leaving the whole amount due as a 5% loan repayable over ten years in equal annual instalments.

**REQUIRED**

(d) Advise Abbie and Cain which option they should choose to finance the amount due to Ben.

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[Total: 15]

- 3 Petra owns a small manufacturing business. Her depreciation policy is as follows:

| Non-current asset                                                                           | Depreciation policy                   |
|---------------------------------------------------------------------------------------------|---------------------------------------|
| Plant and machinery                                                                         | 20% per annum reducing balance method |
| A full year's depreciation is charged in the year of purchase but none in the year of sale. |                                       |

The following information in respect of plant and machinery has been extracted from the books of account for the year ended 31 July 2021.

| Date           | Details                                                                                                                                                                |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 August 2020  | Cost, \$26 800; Provision for Depreciation, \$12 200.                                                                                                                  |
| 1 January 2021 | Purchased new machinery, cost \$4200. This was settled by a cheque payment of \$2450 and part exchange of machinery that had originally cost \$2500 in September 2018. |
| 31 July 2021   | Machinery with an original cost of \$850 and a net book value of \$60 was scrapped with no proceeds.                                                                   |

### REQUIRED

- (a) Prepare the provision for depreciation account for plant and machinery for the year ended 31 July 2021.

#### Provision for Depreciation – Plant and Machinery

| Date | Details | \$ | Date          | Details     | \$     |
|------|---------|----|---------------|-------------|--------|
|      |         |    | 2020<br>Aug 1 | Balance b/d | 12 200 |
|      |         |    |               |             |        |
|      |         |    |               |             |        |
|      |         |    |               |             |        |
|      |         |    |               |             |        |
|      |         |    |               |             |        |

[5]

Workings:

- (b) Prepare the disposal account for the year ended 31 July 2021.

Disposal Account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |

[7]

- (c) Discuss the reasons why a business may choose to depreciate plant and machinery using the reducing balance method.

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[Total: 15]

- 4 EMM is a manufacturing business producing one product, a wooden desk.

The business is contracted to supply 220 desks each week to H Co, a large retailer, at a selling price of \$44 per unit.

The costs incurred by EMM are as follows:

|                      | \$              |
|----------------------|-----------------|
| Direct material      | 36.00 per unit  |
| Production labour    |                 |
| Salaries             | 410.00 per week |
| Bonus                | 0.50 per unit   |
| Finishing labour     |                 |
| Salaries             | 180.00 per week |
| Bonus                | 0.30 per unit   |
| Machine hire         | 120.00 per week |
| Administration costs | 400.00 per week |
| Rent and rates       | 240.00 per week |

### REQUIRED

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

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- (b) (i) Define the term 'margin of safety'.

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- (ii) Explain the usefulness of the margin of safety to a business.

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- (c) Prepare a weekly profit statement using marginal cost principles.

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### Additional information

EMM is concerned about future prospects. It has spare direct labour capacity and the machinery is not being fully utilised.

EMM has been approached by K Limited, a large furniture company, requesting a quotation to supply 80 desks each week. K Limited would require a small design change to the desks, and this would add \$5.40 to the direct material cost. Workers on these desks would receive an additional finishing labour bonus of \$0.20 per unit.

### REQUIRED

- (d) Calculate the selling price per unit that EMM should quote to K Limited in order to achieve a 20% contribution to sales ratio.

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**Additional information**

It has been decided to quote a price of \$48 per unit to K Limited.

This work would involve employing extra finishing labour at a weekly salary of \$120 and hiring an additional machine at \$30 per week.

The contract with H Co to produce 220 desks each week would still be continued at a price of \$44 per unit.

EMM has decided to set an annual target profit of \$17 000.

**REQUIRED**

- (e) Prepare a profit statement for EMM to show the **total** weekly contribution and **total** weekly profit if K Limited accepts the quotation.

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**Additional information**

K Limited have advised EMM that they will only proceed with the order if they are given 5% settlement discount for paying the account within seven days.

**REQUIRED**

- (f) Calculate the total weekly profit of EMM if EMM agrees to giving the settlement discount.

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- (g) Advise EMM whether or not the terms proposed by K Limited should be accepted. Justify your answer using **both** financial and non-financial factors.

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- (h) State **two** advantages of cost–volume–profit analysis to management.

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- (i) State **three** limitations of cost–volume–profit analysis.

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[Total: 30]

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