GradeMax

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

CANDIDATE NUMBER | | | | |

4227794334

ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2018**

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 **17** printed pages and **3** blank pages.

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[Turn over

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1 Carlos and Erika have been in partnership for several years and prepare their financial statements to 31 July.

At 1 August 2016 the following information related to non-current assets was available.

	$
Plant and machinery	
Cost	65 000
Provision for depreciation	5 000
Motor vehicles	
Cost	18 000
Provision for depreciation	3 600

During the year ended 31 July 2017 the following took place.

1 On 1 November 2016, the partnership purchased a new machine for $7500.

2 On 1 December 2016 a machine was sold for $6800. The machine had been purchased for $10 000 on 1 May 2015.

3 On 1 February 2017 a new motor vehicle was purchased for $14 000.

4 The accounting policies in respect of depreciation are:

Plant and machinery is depreciated using the straight-line method at 10% per annum.

Motor vehicles are depreciated using the reducing balance method at 20% per annum.

A full year's depreciation is charged in the year of purchase and none in the year of disposal.

5 No adjustments have yet been made for depreciation or disposal of the machine.

The profit for the year ended 31 July 2017 before any adjustments was $37 490.

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REQUIRED

(a) Calculate the revised profit before appropriation for the year ended 31 July 2017.

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Workings: .....

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Additional information

The terms of the partnership agreement are as follows:

1 Annual partnership salaries: Carlos $10 000 and Erika $15 000.

2 Interest on capital: 3% per annum.

3 No interest is to be paid on drawings up to $20000. Interest at a rate of 6% is to be charged on any drawings in excess of $20 000.

4 Profits and losses are to be shared in the ratio of the capital invested.

The following information is also available at 31 July 2017.

	$
Capital account:	
Carlos	84 000
Erika	28 000
Drawings:	
Carlos	15 000
Erika	25 000

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REQUIRED

(b) Prepare the partnership appropriation account for the year ended 31 July 2017.

Carlos and Erika
Appropriation account for the year ended 31 July 2017

[4]

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Additional information

On 31 July 2016 the balances on the partners' current accounts were:

	$	
Carlos	1 300	credit
Erika	250	debit

REQUIRED

(c) Prepare the current accounts for the year ended 31 July 2017.

Carlos and Erika
Current accounts

	Carlos	Erika		Carlos	Erika
	$	$		$	$

[5]

Additional information

The following information is also available:

	31 July 2017	31 July 2016
	$	$
Credit sales	385 000	327 500
Credit purchases	172 000	153 000
Inventory	6 535	10 800
Bank overdraft	16 100	1 200
Other receivables	34	126
Other payables	586	248
Trade receivables collection period	46 days	31 days
Trade payables payment period	36 days	39 days

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REQUIRED

(d) Calculate the following at 31 July 2017:

(i) Trade receivables

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(ii) Trade payables

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(e) Assess the working capital position of the partnership at 31 July 2017.

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(f) Advise the partners of **three** ways in which they could improve the cash position of the business.

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Additional information

Carlos and Erika are considering converting the partnership into a limited company.

REQUIRED

(g) Advise the partners whether or not they should take this course of action. Justify your answer.

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[Total: 30]

2 Warren is a sole trader. He started trading on 1 February 2016.
During the year ended 31 January 2017 he did not keep detailed accounting records but he has provided the following information:

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Revenue	248 758
Carriage inwards	12 371
Carriage outwards	5 873
Returns inwards	6 250
Returns outwards	11 875
Goods taken for own use	2 246
Inventory at 31 January 2017	27 450

Warren applies a 50% mark-up on cost.

REQUIRED

(a) Prepare the trading section of the income statement for the year ended 31 January 2017.

[6]

(b) Explain **two** advantages of maintaining control accounts.

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Additional information

Whilst preparing his accounts, Warren discovered the following:

1 Goods costing Warren $2400 had been sent to a customer on a sale or return basis on 29 January 2017. The goods had been invoiced with the usual mark-up, but the customer had not yet decided to keep them.

2 Trade receivables were shown as $49532, but irrecoverable debts of $572 had not been written off and a provision for irrecoverable debts of 5% was required.

REQUIRED

(c) Explain how these transactions would affect the financial statements for the year ended 31 January 2017.

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[Total: 15]

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3 David, a sole trader, has prepared a trial balance at 31 December 2017 which did not balance. He entered the difference in a suspense account.

REQUIRED

(a) State **two other** uses of a suspense account.

1 .....

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2 .....

..... [2]

(b) State **four** types of error that will **not** be revealed by the trial balance.

1 .....

2 .....

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4 ..... [4]

Additional information

On checking the financial records, David discovered the following errors.

1 The credit balance on the bank current account of $1650 had been entered in the trial balance as a debit balance.

2 The total of the purchases returns journal of $960 had been debited to the returns inwards account.

3 A prepayment of $450 for telephone charges at 1 January 2017 had not been brought down as an opening balance.

4 The balance on sales ledger control account at 31 December 2017 of $13 625 had been carried down as $13 652.

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REQUIRED

(c) Prepare the suspense account at 31 December 2017 clearly showing the opening balance on the account.

Suspense account

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[6]

REQUIRED

(d) State **three** benefits to a business of preparing annual financial statements.

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[Total: 15]

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4 DP Limited is a large manufacturing and retailing company. The following information is available.

Current selling price per unit	$3.60
Current weekly sales	2 000 units
Contribution margin	45%

REQUIRED

(a) Calculate the **total** contribution that the company would earn over the four-week period.

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Additional information

The directors are planning to hold a four week price promotion on its most popular product.

The directors plan to reduce the selling price of the product by 20% over the whole four weeks of the promotion. They forecast that **additional** sales of the product will be 150% of the current sales.

The company will incur additional fixed costs of $6000 to run the promotion. The directors forecast that unit variable costs will remain as they currently are.

REQUIRED

(b) Calculate the **total** forecast units to be sold if the directors proceed with the promotion.

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(c) Calculate the **additional** profit or loss if the company proceeds with the promotion.

[7]

(d) Calculate the percentage by which current unit sales must increase for the promotion to break even.

[4]

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(e) Advise the directors whether or not they should proceed with the promotion. Justify your answer using **both** financial and non-financial factors.

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(f) Explain the purpose of cost–volume–profit analysis.

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(g) State **four** assumptions of cost–volume–profit analysis.

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3 .....

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4 .....

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Additional information

The directors provide the following information for the manufacturing part of the business:

Budgeted labour hours	26 400 hours
Budgeted machine hours	10 500 hours
Actual labour hours	22 300 hours
Actual machine hours	11 400 hours
Budgeted overheads	$445 000
Actual overheads	$420 000

REQUIRED

(h) (i) Calculate an appropriate overhead absorption rate for the business.

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(ii) Explain **one** limitation of absorption costing.

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[Total: 30]

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