GradeMax

Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

CANDIDATE NUMBER | | | | |

5696026940

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 2019**

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 **19** printed pages and **1** blank page.

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1 Ahmed and Raji are in partnership as retailers but have not maintained full accounting records. They have been advised to use a double entry system of book-keeping.

REQUIRED

(a) State **three** advantages to business owners of using the double entry system of book-keeping.

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Additional information

The following information is available for the partnership:

1 Assets and liabilities

	30 April 2019		1 May 2018	
	$		$	
Equipment at net book value	17 600		20 500	
Motor vehicles at net book value (Cost $25 000 at 1 May 2018)	?		16 500	
Inventory	5 470		6 750	
Trade receivables	3 790		3 260	
Trade payables	4 560		4 390	
Wages owing	2 300		1 500	
Rent paid in advance	1 600		950	
Cash and bank balances	6 470	credit	5 430	debit

2 The summary of the partnership bank receipts and payments for the year ended 30 April 2019 was as follows.

	$
Receipts	
From credit customers	57 900
Payments	
To credit suppliers	25 800
New motor vehicle	6 800
Partners' drawings	16 700
Wages	10 700
Rent	7 500
General expenses	2 300

All purchases and sales were made on credit.

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3 The partners wish to create a provision for doubtful debts of 5% of trade receivables.

4 Depreciation on the motor vehicles is charged at 20% using the straight-line method. Depreciation is charged on a monthly basis.

5 On 1 November 2018 a motor vehicle which had cost $7000 on 1 May 2016 was part-exchanged for a new motor vehicle. The amount of the part-exchange was $3300. The balance of the purchase cost of the new vehicle, $6800, was paid by cheque.

6 There were no additions or disposals of equipment during the year.

REQUIRED

(b) Calculate:

(i) the profit or loss on the disposal of the motor vehicle

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(ii) the **total** depreciation charge for motor vehicles for the year ended 30 April 2019.

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[Turn over

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(c) Prepare the income statement for the partnership for the year ended 30 April 2019.

[9]

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(d) Explain why a business may create a provision for doubtful debts.

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Additional information

When the partners started the business they each invested $25 000 and agreed to share profits and losses equally.

The partners are concerned that the business has low profit and a high bank overdraft. Ahmed's brother is prepared to invest $25 000 into the business.

He has suggested two options to Ahmed and Raji.

Option 1: To loan this amount to the partnership and receive an annual interest of 10%.

Option 2: To invest the full amount and become an equal partner. Through his business contacts he feels that he will be able to improve the total revenue.

REQUIRED

(e) Advise the partners which option, if either, they should accept. Justify your answer.

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[Total: 30]

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2 Lawrence provided the following information at 30 November 2018.

	$
Purchases ledger control account balance	16 970
Sales ledger control account balance	42 350

These did not agree with the list of balances taken from the purchases ledger and sales ledger respectively. The following items were discovered:

1 A discount received of $280 had been omitted from the books.

2 A credit note for a sales returns of $230 had been treated as a sales invoice and entered in the sales journal.

3 An irrecoverable debt of $190 had been written off in the sales ledger. No entry had been made in the control account.

4 A contra entry for $1070 had been debited twice in the purchases ledger control account.

5 A payment of $120 to a credit supplier had not been recorded.

6 Discount allowed of $70 had been posted to the debit side of both the sales ledger control account and the purchases ledger control account.

7 Lawrence owes Kalim $380 and Kalim owes Lawrence $1590. They have agreed to set off the balance, on Lawrence's account in Kalim's sales ledger.

8 A customer's dishonoured cheque had been entered in the cash book as $1560 instead of $1650.

REQUIRED

(a) (i) Prepare the corrected purchases ledger control account at 30 November 2018.

	$		$
		Balance b/d	16 970

[4]

(ii) Prepare the corrected sales ledger control account at 30 November 2018.

	$		$
Balance b/d	42 350		

[5]

(b) Explain what is meant by the term 'error of commission'.

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(c) Explain the effect on a business of not updating:

(i) customers' accounts in the sales ledger

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(ii) suppliers' accounts in the purchases ledger.

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[Total: 15]

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3 K Limited prepares annual accounts to 30 September. For the year ended 30 September 2018, the directors have calculated profit from operations of $44 500. On 31 January 2018 they redeemed a 6% debenture of $100 000 together with accrued interest to that date.

REQUIRED

(a) Calculate the profit for the year ended 30 September 2018.

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Additional information

The directors have provided the following extract from the statement of financial position at 1 October 2017.

Equity	$
Ordinary shares of $0.25 each	500 000
Share premium	175 000
Retained earnings	540 000
	1 215 000

The following information is also available:

1 On 31 December 2017, a rights issue of ordinary shares was made at a premium of $0.15 per share on the basis of 2 ordinary shares for every 5 held on that date. The issue was fully subscribed.

2 On 31 March 2018, a bonus issue was made on the basis of 3 ordinary shares for every 5 held on that date. Reserves were maintained in the most flexible form.

3 On 30 June 2018, an interim dividend of $0.05 per share was paid on all shares in issue on that date.

4 On 30 September 2018, buildings were revalued at $1 200 000. The original cost of the buildings was $1 000 000 and had been depreciated by $150 000.

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REQUIRED

(b) Prepare the statement of changes in equity for the year ended 30 September 2018.

	Ordinary shares $	Share premium $	Revaluation reserve $	Retained earnings $
At 1 October 2017	500 000	175 000	–	540 000

Workings:

[11]

(c) State **one** difference between a capital reserve and a revenue reserve.

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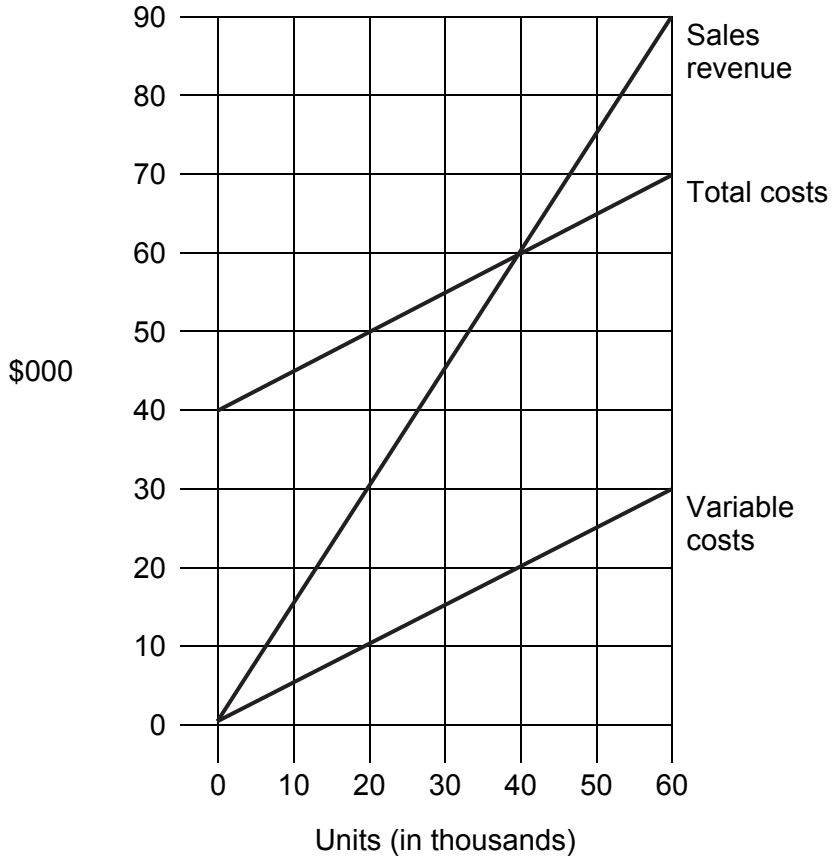
[Total: 15]

4 Ravi manufactures two products, Exe and Wye. Each product has allocated fixed costs. The following chart shows budgeted information for Exe.



REQUIRED

(a) Identify the following values **in dollars** from the chart:

(i) Break-even point

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(ii) Allocated fixed costs

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..... [1]

(iii) Margin of safety

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..... [1]

(iv) Profit

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..... [1]

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[Turn over

Additional information

The following budgeted information is available for Wye:

Sales (units)		105 000
		$
Sales revenue		315 000
Direct labour	0.5 hours × $4 per hour	210 000
Direct materials	0.25 kilos × $2 per kilo	52 500
Allocated fixed costs		34 500

Ravi is concerned that the budgeted profit for Wye is not very high. He believes the following changes could increase the profit but will have no effect on sales volume.

1 Increase the selling price per unit by 5%.

2 Use skilled labour which will increase the cost per hour by 5%.

3 Use better quality material which will increase the cost per kilo by 2%.

4 Increase the advertising cost by $6000.

5 Offer the sales team a bonus of 2% of the sales revenue earned from all sales above 80 000 units.

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REQUIRED

(b) Calculate, for product Wye **only**, the effect of these changes on the budgeted **total** profit for 105 000 units.

[10]

(c) Calculate, for product Wye **only**, the effect of these changes on the budgeted break-even point in dollars.

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(d) Calculate, for product Wye **only**, the effect of these changes on the budgeted margin of safety in units.

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(e) Recommend whether or not Ravi should proceed with these changes. Justify your answer.

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(f) State **four** advantages to a business of planning for the future.

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[Total: 30]

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