GradeMax

Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2060097271

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 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 S Limited is a private limited company. The directors have extracted the following information at 30 September 2019.

	$	$
6% debentures (2021 – 2022)		68 000
Accrued expenses		2 480
Administrative expenses	63 810	
Bank overdraft		12 770
Carriage inwards	3 600	
Distribution costs	49 330	
Interest paid	8 160	
Inventory at 1 October 2018	62 500	
Freehold property	220 000	
Motor vehicles		
Cost	84 600	
Provision for depreciation at 1 October 2018		38 760
Office equipment		
Cost	68 700	
Provision for depreciation at 1 October 2018		32 300
Prepaid expenses	4 400	
Purchases	392 340	
Retained earnings		69 700
Returns inwards	3 470	
Revenue		764 570
Share capital (ordinary shares of $1 each)		50 000
Share premium		15 000
Trade payables		48 730
Trade receivables	86 500	
Wages and salaries	54 900	

The following information is also available:

1 The value of inventory at 30 September 2019 was $73 100 at cost. The directors now wish to write off $2000 in respect of damaged items.

2 Purchase of new office equipment of $6000 had been posted to distribution costs in error.

3 Motor vehicles are to be depreciated at 20% per annum using the straight-line method. The estimated residual value of the motor vehicles is $20 000. Depreciation is to be charged to distribution costs.

4 Office equipment is to be depreciated at 15% per annum using the reducing balance method. Depreciation is to be charged to administrative expenses.

5 At 30 September 2019 there was an additional accrual for wages and salaries of $1700. Wages and salaries are to be charged as 70% to administrative expenses and 30% to distribution costs.

6 Interest paid included debenture interest paid to 30 June 2019.

7 At 30 September 2019 there was an additional prepayment of $4800 for administrative expenses.

8 The directors wish to create a provision for doubtful debts equal to 2% of trade receivables at 30 September 2019 and include it in administrative expenses.

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REQUIRED

(a) Prepare the income statement for the year ended 30 September 2019. Use the space on the **next page** to show your workings.

S Limited
Income statement for the year ended 30 September 2019

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

Workings:

Cost of sales
Administrative expenses
Distribution costs
Finance costs

[12]

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(b) Prepare the statement of financial position at 30 September 2019. Use the space provided on the **next page** for your workings.

Workings:

[10]

(c) Explain the term '6% debentures (2021 – 2022)', which appears in S Limited's financial statements.

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..... [3]

Additional information

Despite having made substantial profit for the year, the directors are concerned that the shareholders have not received any dividends.

They are considering two options:

option 1: paying the shareholders a dividend of $0.50 per share

option 2: making a bonus issue of 1 ordinary share for every 2 shares held.

REQUIRED

(d) Advise the directors on which option they should choose. Justify your answer.

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..... [5]

[Total: 30]

2 Moser has provided the following information about his non-current assets for the year ended 30 November 2018.

1 Motor vehicles

	$
Cost at 1 December 2017	185 000
Accumulated depreciation at 1 December 2017	64 750
Purchased during the year	27 745

2 A motor vehicle was sold during the year for $12 450. It had originally cost $18 500 and had a net book value of $13 875.

3 The motor vehicles depreciation policy is as follows:

Motor vehicles are depreciated at a rate of 25% per annum using the reducing balance method.

A full year's depreciation is charged in the year of purchase and no depreciation is charged in the year of disposal.

REQUIRED

(a) State how a disposal of a non-current asset would affect the income statement and the statement of financial position. Calculations are **not** required.

Income statement

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Statement of financial position

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..... [3]

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(b) Prepare the non-current assets section of Moser's statement of financial position at 30 November 2018.

	Cost $	Accumulated depreciation $	Net book value $

Workings:

[6]

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(c) (i) Explain why the reducing balance method of depreciation is more appropriate than the straight-line method for assets such as computer equipment.

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(ii) Explain why the revaluation method of depreciation is appropriate for assets such as loose tools.

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[Total: 15]

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PLEASE TURN OVER

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3 Maria is a sole trader. Her financial statements for the year ended 31 December 2018 included the following:

	$
Revenue	163 000
Gross profit	42 700
Profit for the year	16 500
Inventory 1 January 2018	17 800
Inventory 31 December 2018	19 600
Trade receivables	15 900
Cash and cash equivalents	2 700
Trade payables	10 700
Capital	130 000

REQUIRED

(a) Calculate the following ratios to **two** decimal places:

(i) gross margin

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(ii) profit margin

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(iii) rate of inventory turnover (in times)

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(iv) current ratio

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(v) liquid (acid test) ratio

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(vi) return on capital employed (ROCE).

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Additional information

Maria's ratios for 2017 were as follows:

1	Gross margin	23.63%
2	Profit margin	12.05%
3	Rate of inventory turnover	7.36 times
4	Current ratio	3.85 : 1
5	Liquid (acid test) ratio	2.04 : 1
6	ROCE	14.65%

REQUIRED

(b) Suggest possible reasons for the changes in Maria's business between 2017 and 2018 in respect of:

(i) profitability

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..... [2]

(ii) liquidity.

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(c) Identify **two** external stakeholders.

Explain why they may be interested in the financial statements of a business.

Stakeholder 1

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Interest

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Stakeholder 2

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Interest

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[4]

[Total: 15]

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4 D Limited manufactures a single product. The company has two production departments: machining and finishing. There are two service departments: stores and maintenance.

The accountant has allocated and apportioned total factory overheads to the four departments.

REQUIRED

(a) Explain the difference between allocation and apportionment of overheads.

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Additional information

The directors of D Limited have provided the following information:

	Machining	Finishing	Stores	Maintenance
Issues from stores	60%	30%	-	10%
Maintenance	75%	25%	-	–
Budgeted direct labour hours	22 000	52 000	-	–
Budgeted machine hours	84 000	12 000	-	–

REQUIRED

(b) Re-apportion the service departments' costs to the production departments.

	Machining $	Finishing $	Stores $	Maintenance $
Total apportioned overheads	177 255	101 150	26 585	33 010
Re-apportionment of stores				
Subtotal				
Re-apportionment of maintenance				
Total				

[4]

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(c) Calculate a suitable overhead absorption rate to **two** decimal places for **each** production department.

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(d) Explain why a business calculates separate overhead absorption rates for each production department rather than a single rate for the whole factory.

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Additional information

The company accountant has been asked to provide a quotation for a customer who requires 200 units of the company's product. The directors wish to quote a selling price which will achieve a 25% gross margin.

Budgeted cost per unit of product

Direct material	$16.00
Direct labour hours	
Machining	10 minutes at $9.60 per hour
Finishing	45 minutes at $10.80 per hour
Machine hours	
Machining	90 minutes
Finishing	20 minutes

REQUIRED

(e) Prepare a statement to show the quoted selling price of **one unit** of the product.

[6]

(f) Calculate the total amount the company would receive if the customer accepted the quoted price and then took a cash discount of 7½%.

[1]

Additional information

Although the business is successful and expanding, the directors feel that the four departments do not always appear to be working well together. The directors are planning to introduce a system of budgetary control which would initially reduce annual profits by 5%.

REQUIRED

(g) Advise the directors whether or not they should proceed with their plans. Justify your answer.

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[7]

[Total: 30]

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