Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

8487655355

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 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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CAMBRIDGE International Examinations

1 From time to time M Limited issues shares.

REQUIRED

(a) State the double entry required to record a rights issue of shares at a premium.

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.... [3]

Additional information

The directors of M Limited have a policy of not paying interim dividends. The statement of changes in equity of the company for the year ended 31 December 2016 was as follows.

M Limited
Statement of changes in equity for the year ended 31 December 2016

			Ordinary share capital	Share premium	General reserve	Retained earnings	Total
2016			$	$	$	$	$
Jan	1	Balance	400 000	150 000	–	120 000	670 000
Feb	10	?	100 000	(100 000)			–
Jun	25	Dividend				(60 000)	(60 000)
Dec	31	Transfer			50 000	(50 000)	–
Dec	31	Profit for the year				90 000	90 000
Dec	31	Balance	500 000	50 000	50 000	100 000	700 000

REQUIRED

(b) (i) State which event was recorded by the entry on 10 February 2016.

.... [1]

(ii) Explain why the entry made on 10 February 2016 was made to the share premium account rather than the retained earnings account.

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.... [2]

(iii) State which dividend was recorded by the entry on 25 June 2016.

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.... [1]

(iv) State why the directors decided to create a general reserve.

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.... [1]

(v) Explain why a long-term bank loan received by the company on 1 July 2016 was **not** recorded in the statement of changes in equity.

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.... [2]

Additional information

1 Balances at 1 January 2017 included the following.

	$
Buildings	
cost	400 000
provision for depreciation	38 000
Equipment	
cost	256 000
provision for depreciation	61 000
Motor vehicles	
cost	188 000
provision for depreciation	81 000

2 During the year ended 31 December 2017 the following took place:

new equipment costing $37 000 was bought

a motor vehicle with an original cost of $10 000, bought during 2016, was sold.

3 The company's depreciation policy is as follows:

buildings at a rate of 2% per annum using the straight-line method

equipment at a rate of 10% per annum using the straight-line method

motor vehicles at a rate of 20% per annum using the reducing balance method.

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

4 On 31 December 2017 the buildings were revalued at $650 000.

REQUIRED

(c) Calculate the net book value of non-current assets which will appear in the statement of financial position at 31 December 2017.

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Additional information

The following information is also available.

	$
At 1 January 2017	
10% Bank loan (2025)	100 000
During the year ended 31 December 2017	
Dividend paid	66 000
Profit for the year before charging depreciation and loan interest	163 000
There was no change to issued share capital	
At 31 December 2017	
Current assets	290 300
Current liabilities (including accrued loan interest)	96 300

REQUIRED

(d) Prepare the statement of financial position at 31 December 2017. Use the space on the next page for your workings.

Use this space for your workings.

[10]

Additional information

The directors are considering the rates of depreciation applied to the company's non-current assets.

REQUIRED

(e) Advise the directors whether or not they should decrease the depreciation rates.
Justify your answer.

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[Total: 30]

PLEASE TURN OVER

2 Angela, Beena and Cai were in partnership sharing profits and losses in the ratio of 4 : 3 : 1. They dissolved their partnership on 30 September 2017.

The following information is available.

1 At that date their statement of financial position was as follows:

Assets	$	$	$	$
Non-current assets				
Land and buildings				150 000
Motor vehicles				40 000
Machinery				60 000
				250 000
Current assets				
Inventory				35 000
Trade receivables				45 000
Bank				4 500
				84 500
Total assets				334 500
Capital and liabilities				
	Angela	Beena	Cai	
Capital account	100 000	75 000	25 000	200 000
Current account	5 000	4 000	(1 000)	8 000
Total	105 000	79 000	24 000	208 000
Non-current liabilities				
10% loan from Beena				100 000
Current liabilities				
Trade payables				26 500
Total liabilities				126 500
Total capital and liabilities				334 500

2 The following assets were sold for cash.

	$
Land and buildings	200 000
Machinery	55 150
Inventory	33 750

3 Angela took a motor vehicle at an agreed valuation of $20 000.
Beena took the remaining motor vehicle at an agreed valuation of $13 000.

4 An amount of $40 500 was received from trade receivables in full settlement of their accounts.

5 An amount of $25 000 was paid to trade payables in full settlement of their accounts.

6 Dissolution costs of $2300 were paid from the bank.

REQUIRED

(a) Prepare the realisation account on dissolution of the partnership.

Realisation account

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[6]

(b) Calculate the amount to be paid to Beena on dissolution of the partnership.

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(c) State **two** items which may be included in a partnership agreement.

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(d) Explain why partners may each have a separate capital account and current account.

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[Total: 15]

3 H Limited provided the following information for its most recent year of trading.

	$
Cash sales	10 600
Credit sales	81 900
Purchases (all credit)	77 800
Purchases returns	1 600
Administrative and distribution expenses	14 800
Opening inventory	4 300
Closing inventory	6 500

H Limited calculates a number of different ratios to analyse its results each year.

REQUIRED

(a) Explain the difference between gross margin and mark-up.

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(b) **(i)** Name **one** cost recorded in an income statement which would **not** be included in the calculation of the expenses to revenue ratio.

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(ii) Name **two** costs which might be included in the administrative expenses of a limited company.

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2 .... [2]

(c) Calculate the following ratios for the year.

(i) gross margin

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(ii) expenses to revenue

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(iii) profit margin

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(d) State how the **three** ratios calculated in **(c)** are related.

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(e) Suggest **two** reasons why H Limited's gross margin may have been **higher** than the previous year.

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[Total: 15]

4 J Limited produces and sells a single product. The budgeted operating statement of the company for the year ending 31 March 2019 is as follows:

	$000	$000
Sales income (20 000 units)		2 900
Direct materials	500	
Direct labour	300	
Production overheads	680	
		(1 480)
Gross profit		1 420
Selling overheads		(898)
Profit for the year		522

The variable production overheads will be $5 per unit.

The variable selling overheads will be $10 per unit.

REQUIRED

(a) (i) Calculate the budgeted contribution per unit.

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(ii) Calculate the budgeted margin of safety in units.

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(iii) Calculate the budgeted margin of safety as a percentage.

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Additional information

The sales manager believes that production and sales can be increased to 25 000 units per year based on the following plan.

1 The company spends $250 000 on an advertising campaign which will last for one year only.

2 The unit selling price is reduced by 15%.

3 The direct material unit cost is reduced by 5%.

REQUIRED

(b) Prepare statements to calculate the following in the first year if the directors decide to proceed with this plan.

(i) the revised budgeted contribution

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(ii) the revised budgeted total profit

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Additional information

If the directors decide to proceed with the sales manager's plan they would do so for a period of 3 years.

If the directors decide **not** to proceed with the sales manager's plan they estimate that profit for the years ending 31 March 2019, 31 March 2020 and 31 March 2021 will be $522 000, $322 000 and $220 000 respectively.

REQUIRED

(c) Advise the directors whether or not they should accept the sales manager's plan. Justify your answer using **both** financial **and** non-financial factors and any relevant calculations.

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(d) State **three** assumptions made when using cost–volume–profit (CVP) analysis.

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(e) State **two** advantages of using CVP analysis.

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[Total: 30]

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