Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

6802433027

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 2015**

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 **14** printed pages and **2** blank pages.

1 Patel, a sole trader, does not keep proper books of account. He provided the following information.

	1 January 2014	31 December 2014
	$	$
Land and buildings at cost	50 000	50 000
Fixtures and fittings at valuation	6 000	4 500
Motor vehicles at net book value	7 600	?
Trade payables	16 750	14 900
Trade receivables	14 670	13 690
Wages owing	1 200	1 400
Inventory	21 750	22 450
Cash in hand	800	950
Rent in advance	1 000	?

Summary of Patel's bank account for the year showed the following.

Receipts	$	Payments	$
Balance b/d	16 980	Payments to credit suppliers	109 620
Receipts from credit customers	156 420	Wages	22 670
Cash sales	20 700	Rent	19 000
Proceeds from sale of motor vehicle	1 500	Electricity	8 650
		General expenses	4 750
		Purchase of new motor vehicle	16 400
		Balance c/d	14 510
	195 600		195 600

Additional information

1. Before banking his receipts from cash sales Patel took $400 per month for his personal drawings. All other payments were made from the bank.

2. During the year he took goods costing $2600 for his own use.

3. Patel depreciates his vehicles at 20% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase. No depreciation is provided in the year of sale.

4. The vehicle sold had a net book value at 1 January 2014 of $2880.

5. A customer has been declared bankrupt and will not pay $750 owing. The amount was included in the trade receivables at 31 December 2014.

6. In addition Patel has decided to create a provision for doubtful debts of 5%.

7. The rent payable is $16 000 per annum.

REQUIRED

(a) Prepare Patel's income statement for the year ended 31 December 2014.

[15]

(b) Prepare Patel's statement of financial position at 31 December 2014.

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.... [9]

Additional information

Patel wishes to expand his business and is undecided about taking out a five year loan or asking the bank for an overdraft.

REQUIRED

(c) State **one** advantage and **one** disadvantage of **each** option.

Five year loan

Advantage ....

....

Disadvantage ....

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Bank overdraft

Advantage ....

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Disadvantage ....

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[6]

[Total: 30]

2 Bradley, a sole trader, provided the following information for the year ended 31 March

	$
Revenue	420 000
Opening inventory	40 000

The rate of mark up is 40%.

The rate of inventory turnover is 5 times per annum.

REQUIRED

(a) Explain what is meant by mark up.

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.... [2]

(b) Prepare the trading section of the income statement for the year ended 31 March 2014.

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Workings:

[9]

(c) State the formula for calculating margin.

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.... [2]

Additional information

At 31 March 2014, the net book value of the non-current assets was $550 000.

REQUIRED

(d) **(i)** Explain what the non-current asset turnover measures.

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.... [4]

(ii) State the formula to calculate the non-current asset turnover ratio. Calculate the … t asset turnover ratio correct to **two** decimal places.

Ratio	Formula	Calculation
non-current asset turnover		

[3]

(e) Explain why a provision for doubtful debts may be necessary.

[3]

Additional information

Bradley provides for doubtful debts at the rate of 4%.

The provision for doubtful debts at 1 April 2013 was $1650.

Trade receivables at 31 March 2014 were $35 000.

REQUIRED

(f) Prepare Bradley's provision for doubtful debts account for the year ended 31 March 2014.

[3]

(g) State how the provision for doubtful debts is shown in:

(i) income statement ....

.... [2]

(ii) statement of financial position ....

.... [2]

[Total: 30]

3 Bould Limited manufactures two products, Wye and Zed. The forecast data for the [illegible] 30 June 2016 is as follows.

	Wye	Zed
	$	$
Revenue from Wye – 70 000 units at $12	840 000	
Revenue from Zed – 90 000 units at $8		720 000
Materials	(259 000)	(180 000)
Labour	(233 000)	(372 000)
Overheads	(190 000)	(207 000)
Profit / (Loss)	158 000	(39 000)
Labour includes fixed costs	65 000	48 000
Overheads include fixed costs	36 000	45 000

REQUIRED

(a) Calculate the contribution per unit of Wye.

[4]

(b) Calculate the contribution per unit of Zed.

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.... [4]

(c) Calculate the break-even point in units of Zed.

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.... [2]

(d) Calculate the break-even point in revenue of Zed.

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.... [2]

(e) Calculate the margin of safety in revenue for Zed.

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.... [2]

Additional information

The directors are concerned about the forecast loss of manufacturing Zed and are considering two proposals.

Proposal 1
Increase the selling price of Zed by $1.20 per unit.
The sales volume is expected to fall by 5% as a result.

Proposal 2
Stop manufacturing Zed.
This will incur redundancy costs of $20 000.
There would be an increased additional budget facility for advertising Wye, which would increase sales volume of Wye by 40%.

REQUIRED

(f) Calculate the revised forecast profit of Bould Limited for the year ended 30 June proposal 1 is adopted.

[5]

(g) Calculate the revised forecast profit if proposal 2 is adopted.

[5]

(h) Advise, with reasons, which proposal the directors should adopt.

Proposal ....

Evaluation ....

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.... [6]

[Total: 30]

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