Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2138864692

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2017**

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 any diagrams or graphs or 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 **18** printed pages and **2** blank pages.

1 F Limited is a large retail company. On 1 February 2016, the company invited applications for 50 000 ordinary shares of $1 each at an issue price of $1.20. The following terms applied:

Payable on application	$0.50
Payable on allotment	$0.70

Applications were received for 65 000 shares.

All monies received in respect of the share issue were posted to the bank account and a share issue holding account until the shares were allotted.

At the time of allotment, transfers were made to the share capital account and the share premium account and monies were returned to the unsuccessful applicants.

REQUIRED

(a) Prepare the following ledger accounts to show **all** transactions relating to the share issue. Dates are **not** required.

Share issue holding account

	$		$

Bank account

	$		$

Share capital account

	$		$

Share premium account

	$		$

[10]

Question 1(b) is on the next page.

Additional information

F Limited's year end is 30 June. The following balances have been extracted from the books of account at **30 June 2016**:

	$
Ordinary share capital ($1 each)	400 000
Share premium account	40 000
8% debentures (2020–2022)	280 000
Bank loan (repayable 2021)	100 000

The following information is also available:

1 The balance of retained earnings at 1 July 2015 was $210 000.

2 On 30 November 2015 a final ordinary share dividend of 2% was paid on all shares in issue at that date.

3 On 31 May 2016 an interim ordinary share dividend of 3% was paid on all shares in issue at that date.

4 The profit for the year ended 30 June 2016 was $65 000.

5 On 30 June 2016 the directors revalued land and buildings from $820 000 to $850 000.

REQUIRED

(b) Prepare the statement of changes in equity for F Limited for the year ended 30 June 2016.

F Limited
Statement of Changes in Equity for the year ended 30 June 2016

	Ordinary shares $000	Share premium $000	Revaluation reserve $000	Retained earnings $000	Total $000

[8]

Additional information

The directors of F Limited wish to purchase a new retail store for $400 000. They are considering two different ways to raise the finance for this investment.

1 Issue a further $400 000 8% debentures (2026–2028).

2 Make a rights issue of 320 000 ordinary shares of $1 each at a price of $1.25.

REQUIRED

(c) Explain **one** difference between debentures and ordinary shares.

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(d) Advise the directors which method of raising the finance you would recommend. Give reasons for your answer.

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Additional information

F Limited also operates a manufacturing business. In the last financial year they extended the factory premises. Expenditure included the following:

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Building contractor charges to construct extension	28 000
Structural repairs to existing roof	4 600
Wages to own employees to construct new loading bay	4 000
Materials for new loading bay	2 400
Legal fees for planning permission	2 200

REQUIRED

(e) Define the term 'revenue expenditure'.

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(f) Prepare a statement to show the total amount of capital expenditure to appear in the financial statements of the business in respect of the extension of the factory premises.

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[Total: 30]

2 Rowsell does not keep full accounting records. However, the following information is available for the year ended 31 May 2017:

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Inventory at cost	
1 June 2016	19 600
31 May 2017	16 300
Trade payables	
1 June 2016	14 350
31 May 2017	17 220
Rent paid	19 500
Telephone charges paid	2 750
Non-current assets net book value at 1 June 2016	24 600
Cheque payments to trade payables	144 715

Additional information

1 All goods were sold with a 20% mark-up on cost.

2 A non-current asset with a net book value of $9380 was sold during the year for $10 175.

3 Non-current assets are depreciated using the reducing balance method at a rate of 25% per annum. It is the policy to provide depreciation for the full year in the year of addition and none in the year of disposal.

4 The charge for rent is $1500 per month.

5 Telephone charges paid cover the period up to 31 March 2017. An amount for the quarter to 30 June 2017 of $840 was paid in July 2017.

6 All purchases were made on a credit basis.

REQUIRED

(a) Prepare the income statement for the year ended 31 May 2017.

Rowsell
Income Statement for the year ended 31 May 2017

[12]

(b) State **three** benefits of keeping full double entry accounting records for a business.

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[Total: 15]

Question 3 is on the next page.

3 Rahman, Silva and Thierry have been in partnership for a number of years sharing profits and losses in the ratio 3 : 2 : 1 respectively. The following draft statement of financial position was drawn up at 30 June 2017:

	$	$
Non-current assets at net book value		
Freehold property	120 000	
Plant and machinery	56 000	
Motor vehicles	38 000	214 000
Current assets		
Inventory	42 000	
Trade receivables	19 400	
Cash and cash equivalents	2 300	63 700
Total assets		277 700
Capital and liabilities		
Capital accounts		
Rahman	90 000	
Silva	60 000	
Thierry	30 000	180 000
Current accounts		
Rahman	42 300	
Silva	18 600	
Thierry	(4 400)	56 500
Non-current liabilities		
Loan account - Thierry		30 000
Current liabilities		
Trade payables		11 200
Total capital and liabilities		277 700

Thierry decided to retire from the partnership on 30 June 2017 and the following information was available:

1 Rahman and Silva were to continue in partnership sharing profits and losses in the ratio 3 : 2 respectively.

2 Goodwill was to be valued at $48 000. No goodwill account was to be maintained in the books of account.

3 Thierry was to take over one of the motor vehicles at an agreed value of $12 000. The remaining motor vehicles were to be valued at $22 000.

4 The value of inventory was to be written down by $3000.

5 An irrecoverable debt of $200 was to be written off.

6 Thierry agreed not to ask for repayment of his loan to the partnership when he retired.

REQUIRED

(a) Prepare the revaluation account at 30 June 2017.

[4]

(b) Prepare the journal entry to account for goodwill at 30 June 2017. A narrative is **not** required.

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(c) Prepare a statement to show the **total** amount due to Thierry on his retirement from the partnership.

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(d) State **three** items that may appear in a partnership agreement.

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(e) Explain the difference between a realisation account and a revaluation account.

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[Total: 15]

Question 4 is on the next page.

4 S Limited manufactures three different products.

The following budgeted information is available:

Products	A	B	C
	$	$	$
Monthly sales revenue	72 000	27 000	165 000
Unit costs			
Direct materials ($1 per kilo)	6	9	3
Direct labour	2	7	8
Variable overheads	1	2	1
Selling price per unit	18	27	33

Total monthly fixed overheads are expected to be $138 000.

The directors of S Limited have been informed that only $39 000 worth of direct materials would be available in December 2017.

All products use the same type of direct material and no price increase would occur due to the shortage. No changes are anticipated in selling prices, fixed overheads or unit variable costs.

Due to an increased demand, the directors do not want to discontinue any of the products and wish to produce a minimum of 1000 units of each.

REQUIRED

(a) Prepare a statement to show the maximum budgeted profit the company will make in December 2017 taking into account the shortage in materials and minimum production requirement.

	Product A	Product B	Product C
Contribution per unit ($)			
Contribution per limiting factor ($)			
Ranking			

Budgeted profit statement for December 2017

	Production (units)	Contribution per unit $	Total $
Product A			
Product B			
Product C			
Total contribution			
Less: Fixed overheads			
Budgeted profit / loss			

[11]

(b) Prepare a statement to show the maximum budgeted profit the company will make in December 2017 taking into account the shortage in materials but **without** the minimum production requirement.

Budgeted profit statement for December 2017

	Production (units)	Contribution per unit $	Total $
Product A			
Product B			
Product C			
Total contribution			
Less: Fixed overheads			
Budgeted profit / loss			

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(c) Advise the directors of S Limited whether or not they should produce a minimum of 1000 units of each product. Justify your answer.

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(d) Define the term ‘margin of safety’.

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(e) Explain the usefulness of margin of safety to a company.

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[Total: 30]

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