

Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME		
CENTRE NUMBER	CANDIDATE NUMBER	

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.



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

1 January 2014	31 December 2014
\$	\$
50 000	50 000
6000	4 500
7600	?
16750	14900
14670	13690
1 200	1400
21750	22450
800	950
1000	?
	\$ 50 000 6 000 7 600 16 750 14 670 1 200 21 750 800

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

Receipts	\$	Payments	\$
Balance b/d Receipts from credit customers Cash sales Proceeds from sale of motor vehicle	16 980 156 420 20 700 1 500	Payments to credit suppliers Wages Rent Electricity General expenses	109620 22670 19000 8650 4750
		Purchase of new motor vehicle	16400
		Balance c/d	<u> 14510</u>
	<u>195 600</u>		<u>195600</u>

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.

	[9]
Add	ditional information
	el wishes to expand his business and is undecided about taking out a five year loan or asking bank for an overdraft.
RE	QUIRED
(c)	State one advantage and one disadvantage of each option.
	Five year loan
	Advantage
	Disadvantage
	Bank overdraft
	Advantage
	Disadvantage
	[6]
	• •

[Total: 30]

2

0				
Bradley, a sole trader, provided the follo	owing information for the year ended 31 March 2014.			
Revenue Opening inventory	\$ 420 000 40 000			
The rate of mark up is 40%.				
The rate of inventory turnover is 5 times	s per annum.			
REQUIRED				
(a) Explain what is meant by mark up.				
	[2]			
(b) Prepare the trading section of the in	ncome statement for the year ended 31 March 2014.			

	W	orkings:	
			[9]
(c)	Sta	te the formula for calculating margin.	
			[2]
Add	litio	nal information	
At 3	1 M	arch 2014, the net book value of the non-current assets was \$550 000.	
RE	QUIF	RED	
(d)	(i)	Explain what the non-current asset turnover measures.	
			[4]

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

Ratio	Formula	Calculation
non-current asset turnover		

				[3]		
(e)	Expl	ain why a provision for doubtl	rul debts may be necessary.			
				[3]		
Ad	dition	nal information				
Bra	ıdley p	provides for doubtful debts at	the rate of 4%.			
The	e prov	rision for doubtful debts at 1 A	pril 2013 was \$1650.			
Tra	de re	ceivables at 31 March 2014 w	vere \$35000.			
RE	QUIR	ED				
(f)	Prep	pare Bradley's provision for do	oubtful debts account for the ye	ear ended 31 March 2014.		
				[3]		

(g)	Sta	te 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 year ending 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		720000
Materials	(259000)	(180000)
Labour	(233000)	(372000)
Overheads	<u>(190 000)</u>	(207 000)
Profit / (Loss)	158 000	(39000)
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.	
		[4]
(c)	Calculate the break-even point in units of Zed.	
		<u>.</u> —.
(d)	Calculate the break-even point in revenue of Zed.	
		[2]

(e)	Calculate the margin of safety in revenue for Zed.
	[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 \$20000.

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 2016 proposal 1 is adopted.	if
		•••
		•••
		•••
	[:	
(g)	Calculate the revised forecast profit if proposal 2 is adopted.	
		•••
		•••
		•••
		•••
		•••
		•••
	[-	5]

(h)	Advise, with reasons, which proposal the directors should adopt.
	Proposal
	Evaluation
	[6]

[Total: 30]

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