Cambridge International AS & A Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

0603544865

ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2020**

1 hour 30 minutes

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS
- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any rough working.
- You may use a calculator.
- You should present all accounting statements in good style.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION
- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **20** pages. Blank pages are indicated.

1 The directors of K Limited are preparing the financial statements for the year ended 31 October 2019.

The following information is available.

1 Expense payments made during the year ended 31 October 2019.

	$
Administrative expenses	8490
Directors' fees	41200
Distribution costs	16500
Finance costs	800
Staff wages and salaries	140790

2 Distribution costs include a payment of $7200 for a six-month advertising campaign which will end on 31 March 2020.

3 Directors' fees are allocated between distribution costs and administrative expenses in the ratio 1:4.

4 Staff wages and salaries are allocated between distribution costs and administrative expenses in the ratio 3:2.

5 Non-current assets

	At 1 November 2018		Depreciation policy	Allocation
	Cost $	Provision for depreciation $		
Motor vehicles	160000	32600	20% per annum using reducing balance method	100% to distribution costs
Furniture and equipment	45000	5500	15% per annum using straight-line method	80% to administrative expenses 20% to distribution costs

6 In 2017 the company had issued 8% debentures (2025) for $20000. Half of these were repaid on 1 August 2019. Debenture interest was paid up to 30 April 2019.

REQUIRED

(a) Complete the income statement for the year ended 31 October 2019. Use the space on the next page for your workings.

K Limited
Income statement for the year ended 31 October 2019

	$
Revenue	542 370
Cost of sales	259 240
Gross profit	283 130
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

Administrative expenses
Distribution costs
Finance costs

[11]

Additional information

At 1 November 2018 the equity section of the company's statement of financial position was as follows.

	$
Ordinary shares of $0.50 each	90 000
Share premium	36 000
Retained earnings	65 600

On 30 June 2019 the company paid a dividend of $0.10 per ordinary share.

At 31 October 2019 the company made a bonus issue of two ordinary shares for every three ordinary shares held. Reserves were maintained in their most flexible form.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 31 October 2019.

K Limited
Statement of changes in equity for the year ended 31 October 2019

	Share capital $	Share premium $	Retained earnings $	Total $

Workings:

[7]

Additional information

K Limited was formed several years ago by the partners in a business.

REQUIRED

(c) State **three** advantages to the shareholders of trading as a limited company.

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[3]

Additional information

The directors of a rival company, Q plc, are concerned about their company's performance. The following information about Q plc is available.

	Year ended 31 October			Industry averages for 2019
	2017	2018	2019	
Non-current asset turnover	7 times	6 times	5 times	4 times
Return on capital employed (%)	23	20	16	18

REQUIRED

(d) Assess the performance of Q plc based on these ratios.

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Additional information

Q plc's liabilities include 8% debentures of $50 000.

A director has suggested repaying the debentures to improve the company's return on capital employed.

REQUIRED

(e) Advise the director whether or not the company should go ahead with this suggestion. Justify your answer.

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.... [5]

[Total: 30]

2 Daniel, a retailer, receives rent from a tenant.

The balance on the rent receivable account on 1 January 2019 was $700. This represented rent received in advance at the beginning of the year.

During the year ended 31 December 2019 Daniel received total rent of $4800 covering the 12-month period beginning 1 March 2019.

REQUIRED

(a) Prepare the rent receivable account for the year ended 31 December 2019.

Rent receivable account

	$		$

[4]

(b) State in which section of the income statement for the year ended 31 December 2019 Daniel's rent receivable should appear.

.... [1]

(c) State in which section of the statement of financial position at 31 December 2019 the balance of the rent receivable account should appear.

.... [1]

Additional information

Daniel had created a provision for doubtful debts of $672 on 31 December 2018. At this date trade receivables appeared on the statement on financial position with a net value of $16 128.

At 31 December 2019 Daniel decided to maintain the provision for doubtful debts at the same rate as in the previous year. Total trade receivables at 31 December 2019 were $15 300 before making any adjustment for provision for doubtful debts.

REQUIRED

(d) Calculate the increase or decrease in the provision for doubtful debts at 31 December 2019.

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.... [5]

(e) State **two** accounting concepts which are applied when creating a provision for doubtful debts.

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2 ....
[2]

(f) State **two** factors that a business could consider when setting a rate for provision for doubtful debts.

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2 ....

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[2]

[Total: 15]

3 The following balances appear in Reena's purchases ledger control account at 29 February 2020.

	$
Total of amounts due to credit suppliers	27 450
Total of a credit supplier's account which had been overpaid	290

The bookkeeper extracted the following information from the books of prime entry for March 2020.

	$
Purchases journal	32 480
Purchases returns journal	1 430
Cash book: cash purchases	7 290
Cash book: payments to credit suppliers	26 980
Cash book: totals of discounts columns	
Debit column in cash book	1 780
Credit column in cash book	1 060
General journal	
Contra entries sales ledger to purchases ledger	810
Interest charged by credit suppliers on overdue accounts	470

At 31 March 2020 there were no overpaid suppliers' accounts.

REQUIRED

(a) Prepare the purchases ledger control account for March 2020.

Purchases ledger control account

	$		$

[7]

(b) State **three** reasons why a business may prepare a purchases ledger control account.

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[3]

Additional information

The bookkeeper also prepared a sales ledger control account for March 2020. However, the balance of the control account did not agree with the total of balances of accounts in the sales ledger.

The following errors were discovered which accounted for the difference.

1 The total of the sales returns journal had been overcast by $160.

2 The balance of a sales ledger account had been undercast by $150.

3 An entry in the sales journal for Susan Baker, $370, had been posted as a debit entry in the sales ledger account of Sarah Barker.

4 The bank statement for 31 March 2020 recorded the return of a cheque for $420 received from a credit customer. This transaction had not yet been recorded in the books of account.

5 An entry in the general journal to write off the balance of the account of J Limited, $230, as irrecoverable had been posted to the debit side of the customer's account.

REQUIRED

(c) Complete the following table to reconcile the sales ledger control account balance with the total of the sales ledger balances.

Error 1 has been completed for you as an example.

	sales ledger control account balance	total of sales ledger balances
	$	$
Incorrect figures	14 850	15 320
Error 1	160	–
Error 2		
Error 3		
Error 4		
Error 5		
Corrected figures		

[5]

[Total: 15]

4 Y Limited is a large manufacturing company with factories at several locations. The company uses a marginal costing system.

REQUIRED

(a) State **three** benefits to a business of break-even analysis.

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[3]

Additional information

At one factory a single product is manufactured which sells for $75 per unit. The budgeted costs of manufacture for one unit are as follows:

	$
Direct materials 2 kg at $12.50 per kg	25
Direct labour 3.5 hrs at $10 per labour hour	35

Fixed costs are budgeted to be $66 000 per month. It is possible to produce 7500 units in normal working conditions. Currently 5800 units are made and sold each month.

REQUIRED

(b) Calculate the monthly break-even point:

(i) in units

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.... [2]

(ii) in sales revenue

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.... [1]

(c) Calculate the forecast profit per month based on 5800 units.

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.... [2]

(d) Define the term 'margin of safety'.

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.... [1]

Additional information

The directors of Y Limited believe they can increase demand for their product by making some changes to the design. This would result in the following.

1 A $7 increase in the selling price per unit

2 A 10% increase in direct materials usage

3 A 20% increase per kg in direct materials cost

4 A forecast 40% increase in demand.

Overtime working is available if required. This will be paid at a 25% premium.

Additional machinery will be required at a cost of $24 000. The company's policy is to depreciate machinery over a 5-year period.

REQUIRED

(e) Prepare a marginal cost statement showing the monthly profit based on these changes.

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Additional information

At a different factory the company manufactures two products: Product A and Product B.

The following budgeted information is available.

	Product A	Product B
Monthly demand	300 units	200 units
Selling price per unit ($)	20	25
Direct materials per unit ($)	5	14
Direct labour hours per unit	0.75	0.5

Each product uses the same direct labour, but requires different direct materials. Direct labour is paid at $12 per hour.

The production manager is aware that only 285 hours of direct labour will be available in August 2020.

REQUIRED

(f) Prepare the optimum production plan.

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Additional information

The marketing director does not think that the optimum production plan should be implemented.

REQUIRED

(g) Advise the directors whether or not the company should implement the optimum production plan. Justify your answer referring to **both** financial and non-financial factors.

.... [5]

[Total: 30]

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