

CANDIDATE
NAME

CENTRE
NUMBER

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CANDIDATE
NUMBER

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ACCOUNTING

9706/21

Paper 2 Structured Questions

May/June 2016

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 Bayliss Limited is a retailer of ladies' fashion material. The following trial balance has been extracted from the books of account at 31 December 2015:

	Dr \$	Cr \$
5% debentures (2017)		80 000
Administrative expenses	205 000	
Cash and cash equivalents		32 000
Distribution costs	197 000	
Dividends paid	10 000	
General reserve		21 000
Interest paid	13 000	
Inventory at 1 January 2015	98 000	
Non-current assets at cost/valuation		
Land and buildings	185 000	
Plant and machinery	204 000	
Provision for depreciation		
Buildings		23 000
Plant and machinery		94 000
Ordinary shares of \$0.50 each fully paid		140 000
Other payables		7 000
Other receivables	3 000	
Purchases	480 000	
Retained earnings		61 000
Revenue		984 000
Share premium		3 000
Trade payables		59 000
Trade receivables	109 000	
	<u>1 504 000</u>	<u>1 504 000</u>

Additional information

- Inventory at 31 December 2015 is valued at a cost of \$105 000.
- Land is included in the trial balance at a value of \$135 000. It is to be revalued to \$150 000 at 31 December 2015.
- Depreciation for the year ended 31 December 2015 is to be provided as follows:
Buildings – 2% per annum using the straight-line method
Plant and machinery – 10% per annum using the reducing balance method.

All annual depreciation is to be charged to administrative expenses.
- Trade receivables includes a debt of \$9000 which is to be written off to administrative expenses at 31 December 2015.
- The directors wish to make provision for doubtful debts of 3% of trade receivables. The adjustment should be charged to administrative expenses.
- On 31 December 2015, Bayliss Limited made a bonus issue of shares on the basis of one ordinary share for every twenty ordinary shares held. The company policy is to leave reserves in their most flexible form. No entries have been made in the books of account in respect of the bonus issue.
- Debenture interest has been paid to 30 September 2015.

REQUIRED

(a) Prepare the income statement for Bayliss Limited for the year ended 31 December 2015.

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(b) Prepare the statement of changes in equity for Bayliss Limited for the year ended 31 December 2015.

Bayliss Limited

Statement of changes in equity for the year ended 31 December 2015

	Share capital \$000	Share premium \$000	Revaluation reserve \$000	General reserve \$000	Retained earnings \$000	Total \$000
Balance at 1 January 2015						

[5]

(c) Prepare the statement of financial position for Bayliss Limited at 31 December 2015.

[6]

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Additional information

The statement of financial position of a limited company may include capital reserves and also revenue reserves.

REQUIRED

(e) Explain the difference between a capital reserve and a revenue reserve.

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(f) State **one** example of a capital reserve.

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[Total: 30]

- 2 The following information has been extracted from the financial statements of Thaw Limited at 31 December 2015.

	\$
Revenue	156 000
Purchases	88 000
Inventory at 31 December 2015	42 000
Operating expenses	48 000
Trade receivables	39 000
Other receivables	2 000
Cash in hand	1 000
Trade payables	29 000
Other payables	8 000
Bank overdraft	10 000
8% debenture (2019 – 2021)	6 000

Additional information

- 1 Inventory at 1 January 2015 was valued at \$34 000.
- 2 All sales and purchases were on credit.

REQUIRED

- (a) Calculate the following ratios for Thaw Limited.

- (i) Current ratio to **two** decimal places.

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- (ii) Liquid (acid test) ratio to **two** decimal places.

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(iii) Trade receivables turnover (days)

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(iv) Trade payables turnover (days)

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(v) Inventory turnover (days)

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(b) Discuss the ratios calculated in part **(a)** in respect of Thaw Limited's liquidity and comment on the overall position.

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(c) Explain **three** limitations of ratio analysis.

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[Total: 15]

- 3 Wang and Yuan, who share profits and losses in the ratio 2:1, decided to dissolve their partnership. Their summarised statement of financial position at 30 September 2015 was as follows:

	\$
Non-current assets	
Land and buildings	60 000
Motor vehicles	<u>10 000</u>
	<u>70 000</u>
Current assets	
Inventory	14 000
Trade receivables	<u>16 000</u>
	<u>30 000</u>
Total assets	<u>100 000</u>
Capital and liabilities	
Capital accounts	
Wang	40 000
Yuan	<u>25 000</u>
	<u>65 000</u>
Current accounts	
Wang	(10 000)
Yuan	<u>13 000</u>
	<u>3 000</u>
Current liabilities	
Trade payables	26 000
Bank	<u>6 000</u>
	<u>32 000</u>
Total capital and liabilities	<u>100 000</u>

Additional information

- 1 Land and buildings were sold for \$70 000.
- 2 Yuan took one vehicle at an agreed value of \$3000 and the remaining vehicle was sold for \$3500.
- 3 Trade receivables realised \$15 000.
- 4 Trade payables were paid after taking a discount of \$1500.
- 5 The inventory was sold for \$12 000.
- 6 The expenses of dissolution were \$1700.

REQUIRED

(a) Prepare the partnership realisation account.

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(b) Calculate the amount due to each partner when the bank account is closed on dissolution.

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(c) State **two** reasons why a partner may have an overdrawn current account.

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(d) State why partnerships maintain separate capital accounts for each partner.

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[Total: 15]

- 4 Rahel manufactures a single product X and wishes to know the break-even point.

REQUIRED

- (a) State what is meant by break-even point.

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 [1]

Additional information

The following budgeted information is available for product X.

Selling price per unit	\$2.00
Contribution to sales ratio	62.5%
Fixed costs	\$50 000
Production and sales	100 000 units

REQUIRED

- (b) Calculate the break-even point in units and \$ revenue.

(i) in units

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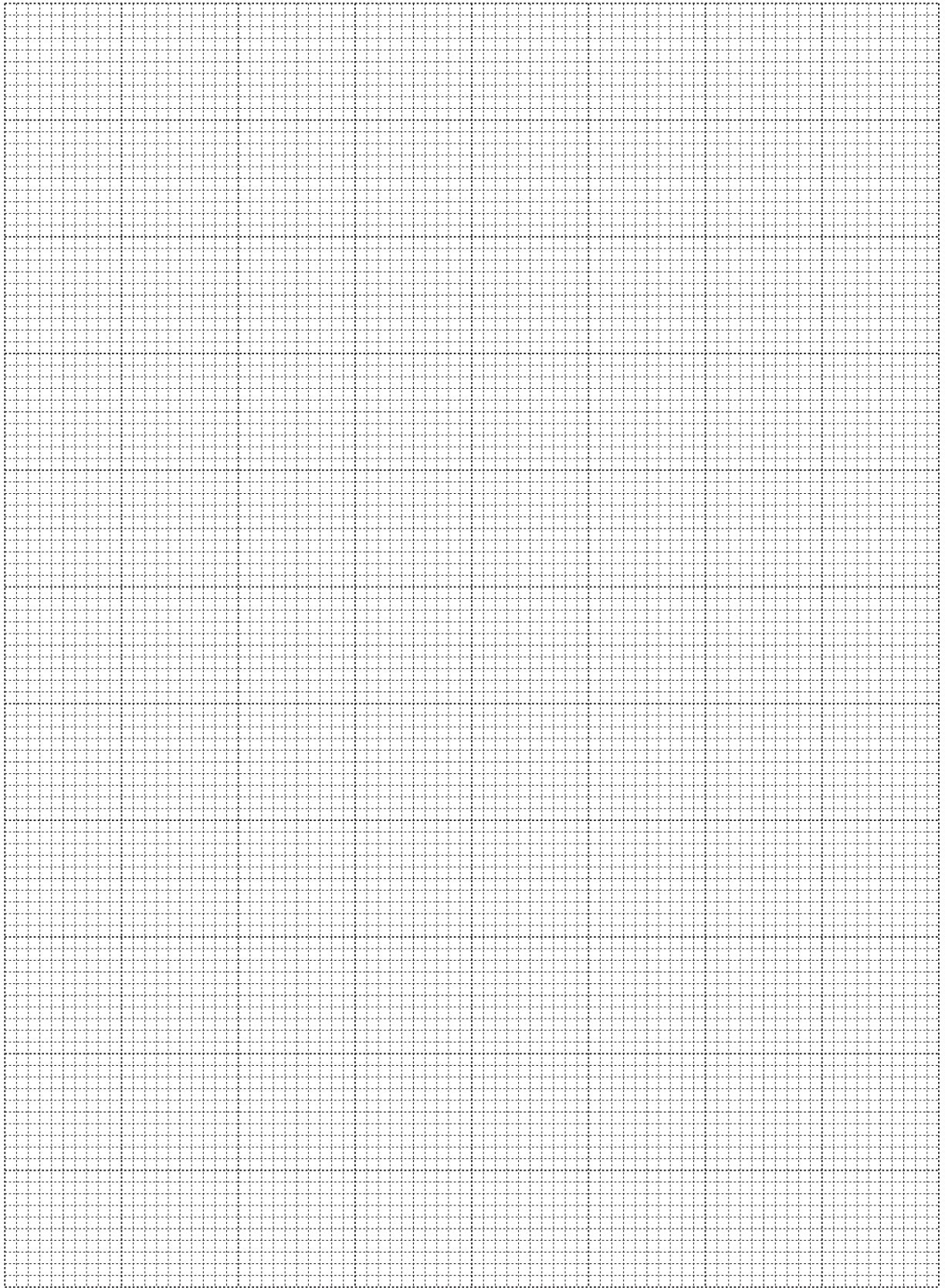
(ii) in revenue

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(c) Prepare a break-even chart for product X.



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(d) Calculate the margin of safety.

(i) in units

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(ii) as a percentage

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Additional information

Rahel is considering opening another factory to produce two new products: Y and Z.

The following information is available.

	Y	Z
	\$ per unit	\$ per unit
Direct material	2	4
Direct labour (\$5 per hour)	10	5
Variable overhead	1.5	1.5
Selling price	23	18

Forecast demand for April is 4000 units of Y and 6000 units of Z.

REQUIRED

(e) Calculate the contribution per unit of **each** product Y and Z.

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Additional information

During April, fixed costs are forecast to be \$60 000.

REQUIRED

- (f) Calculate the forecast profit for the new factory for the month of April.

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Additional information

During April, direct labour hours are expected to be limited to 10 000 hours.

REQUIRED

- (g) Calculate the revised profit taking into account the limited direct labour hours.

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 [5]

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