Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

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ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 2014**

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 **15** printed pages and **1** blank page.

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CAMBRIDGE International Examinations

[Turn over

1 Shane Limited is a small manufacturing company.
The directors provided the following information for the six months ended 31 December

	$000
Trade receivables at 1 July 2013	40
Trade receivables at 31 December 2013	54
Cash received from trade receivables	3320
Sales returns	60
Bad debts	80

All sales are on credit.

REQUIRED

(a) Prepare a sales ledger control account to calculate Shane Limited's sales for the 6 months ended 31 December 2013

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Shane Limited's financial statements also showed the following information for th[illegible]s ended 31 December 2013.

	$000
Inventories at 1 July 2013	
Raw materials	80
Work in progress	110
Finished goods	204
Purchases	
Raw materials	780
Finished goods	150
Carriage inwards	128
Factory power (direct)	88
Factory machinery at cost	160
Motor vehicles at cost	140
Production wages	480
Electricity	138
Rent	326
Factory expenses	56
General office expenses	45

Additional information

1 Inventories at 31 December 2013

Raw materials	$112 000
Work in progress	$146 000
Finished goods	$210 000

2 Rent prepaid at 31 December 2013, $26 000.

3 Expenses were allocated as follows:

Electricity	2/3 factory, 1/3 office
Rent	3/5 factory, 2/5 office

4 Motor vehicles were used solely for the distribution of finished goods.

5 Depreciation was provided annually on a straight-line basis as follows:

Factory machinery	20%
Motor vehicles	10%

REQUIRED

(b) Prepare Shane Limited's manufacturing account for the 6 months ended 31 Decembe

[10]

(c) Prepare Shane Limited's income statement for the 6 months ended 31 December

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(d) Explain the following concepts:

(i) Matching

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(ii) Materiality

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[Total: 30]

Question 2 is on the next page.

2 Richard commenced business on 1 May 2011. At the end of the first year of tradi[illegible]t from his statement of financial position showed:

Non-current assets	Cost	Accumulated Depreciation	Net book value
	$	$	$
Freehold land and Buildings	100 000	2 000	98 000
Machinery	64 000	16 000	48 000
Motor vehicle	12 000	3 600	8 400

Richard has a policy to depreciate non-current assets as follows:

- Buildings at 2% per annum on cost.
- Machinery at 25% per annum on cost.
- Motor vehicles at 30% per annum using the reducing balance method.
- Depreciation is charged for each month of ownership.

On 1 August 2012 additional machinery, costing $18 000, was purchased.

On 1 January 2013 a new motor vehicle costing $24 000 was purchased. On the same date the old motor vehicle was traded in. Richard received an allowance of $2 600 against the cost of the new vehicle. The vehicle disposed had originally cost $12 000 and was purchased on 1 May 2011. All payments and receipts for purchases and disposals were in cash.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 30 April 2013. Dates are not required.

(i) Motor vehicles (at cost)

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(ii) Provision for depreciation of motor vehicles

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(iii) Disposal of motor vehicles

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(b) Calculate the depreciation charge for the year ended 30 April 2013 to be shown in the income statement, clearly identifying the amount charged for each category of asset.

[6]

Additional information

Richard is considering the admission of a partner and feels that he should be rewarded for his efforts in starting and developing the business. His accountant has advised him that there is an asset called goodwill.

REQUIRED

(c) Explain the meaning of the term goodwill and suggest **two** reasons how it may arise.

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(d) Explain how goodwill should be treated in the books of partnership.

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[Total: 30]

3 Airlie Limited manufactures one product. The following information is available for th n of one unit of product for the year ending 30 June 2014.

	$
Selling price	32.00
Direct materials	6.50
Direct labour	8.50
Fixed factory overheads	5.00
Variable factory overheads	3.00
Fixed selling and administration overheads	3.50
Variable selling and administration overheads	2.50

The budgeted output is 18 000 units per year, which represents 75% of total production capacity.

REQUIRED

(a) Calculate the breakeven point in units.

[5]

(b) Calculate the breakeven point as a percentage of capacity.

[3]

(c) Prepare a marginal cost statement to show Airlie Limited's budgeted total profi[illegible]r ending 30 June 2014 based on the budgeted output of 18 000 units.

Marginal cost statement
year ending 30 June 2014

	$	$

[3]

Additional information

1 The directors are considering purchasing additional machinery at a cost of $45 000.

2 This will increase capacity by 10%.

3 The machinery will be written off over five years, with an estimated residual value of $5000.

4 The directors plan to reduce the selling price by 12.5% and this will increase demand by 50%.

5 Fixed selling and administration overheads will increase by 10%.

REQUIRED

(d) Calculate the revised breakeven point in units.

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(e) Calculate the revised breakeven point as a percentage of capacity.

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(f) Prepare a marginal cost statement to show Airlie Limited's revised total profit for the year ending 30 June 2014 if the machinery is purchased.

Revised marginal cost statement
year ending 30 June 2014

	$	$

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(g) Advise the directors whether they should go ahead with their plans. Give reasons for your answer.

[7]

[Total: 30]

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