

CANDIDATE
NAME

| |
|--|
| |
|--|

CENTRE
NUMBER

| | | | | |
|--|--|--|--|--|
| | | | | |
|--|--|--|--|--|

CANDIDATE
NUMBER

| | | | |
|--|--|--|--|
| | | | |
|--|--|--|--|



ACCOUNTING

9706/22

Paper 2 Structured Questions

February/March 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 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 **19** printed pages and **1** blank page.

- 1 The trial balance of Seema Limited for the year ended 30 June 2015 shows these figures:

| | Debit \$ | Credit \$ |
|-------------------------------------|----------------|----------------|
| Revenue | | 526 000 |
| Purchases | 342 000 | |
| Inventory at 1 July 2014 | 37 500 | |
| Selling and distribution expenses | 37 510 | |
| Administrative expenses | 36 130 | |
| Provision for doubtful debts | | 125 |
| Interest paid | 625 | |
| Non-current assets at cost | | |
| Warehouse buildings | 300 000 | |
| Motor vehicles | 70 000 | |
| Office equipment | 25 000 | |
| Provision for depreciation | | |
| Warehouse buildings | | 12 000 |
| Motor vehicles | | 12 500 |
| Office equipment | | 1 500 |
| Trade receivables | 5 020 | |
| Trade payables | | 6 270 |
| Cash and cash equivalents | 27 200 | |
| 140 000 Ordinary shares of \$1 each | | 140 000 |
| 5% Debentures (2021 – 2025) | | 25 000 |
| General reserve | | 25 000 |
| Retained earnings | | 140 990 |
| Interim ordinary dividends paid | 8 400 | |
| | <u>889 385</u> | <u>889 385</u> |

Additional information

- Inventory on 30 June 2015 was valued at \$29 400.
- Depreciation is to be charged as follows:

| | |
|---------------------|------------------------------------|
| Warehouse buildings | 4% using straight line method |
| Motor vehicles | 25% using straight line method |
| Office equipment | 10% using reducing balance method. |
- The provision for doubtful debts is to be maintained at 5% of the trade receivables.
- An irrecoverable debt of \$200 should be written off.
- The directors have decided to transfer \$25 000 to the general reserve.
- The directors have proposed a final dividend of \$0.07 per share.
- The debentures were issued in 2011.
- The motor vehicles were used by the sales team.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2015.

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

..... [10]

Additional information

The directors of Seema Limited have calculated the current ratio to be 8.87 : 1.
They regard the ratio calculated to be too high and are considering repaying the debentures.

REQUIRED

(d) Discuss the effect of this course of action on:

(i) working capital

.....
.....
.....
.....
.....
.....
..... [2]

(ii) the return on capital employed

.....
.....
.....
.....
.....
..... [2]

- 2 James and Lewis have been in partnership for some years sharing profits and losses equally. They had no partnership agreement. Their statement of financial position at 30 September 2015 showed the following information.

| | | | |
|--------------------|-----------------|-----------------|----------------|
| | | | \$ |
| Non-current assets | | | 230 000 |
| Net current assets | | | <u>60 000</u> |
| | | | <u>290 000</u> |
| Capital accounts | | | |
| James | | | 200 000 |
| Lewis | | | <u>70 000</u> |
| | | | 270 000 |
| Current accounts | | | |
| | James | Lewis | |
| | \$ | \$ | |
| Opening balance | 31 000 | 17 000 | |
| Share of profit | 15 000 | 15 000 | |
| Drawings | <u>(21 000)</u> | <u>(37 000)</u> | |
| Closing balance | <u>25 000</u> | <u>(5 000)</u> | <u>20 000</u> |
| | | | <u>290 000</u> |

Additional information

On 1 October 2015 Ahmed joined the partnership. A partnership agreement was drawn up. The terms set out in the agreement were:

- 1 Profits and losses are to be shared equally.
- 2 Interest is to be charged at 5% on drawings.
- 3 Interest is to be allowed at 10% on capital.

The following also took place:

- 1 Ahmed introduced capital of \$80 000, which he paid into the business bank account.
- 2 Goodwill was valued at \$60 000 but no goodwill account is to be maintained in the books of account.
- 3 Non-current assets were revalued at \$270 000.
- 4 The inventory value was to be reduced by \$4000.

REQUIRED

(a) Prepare the revaluation account.

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
..... [3]

(b) Prepare the capital accounts of the partners to record the admission of Ahmed.

.....
.....
.....
.....
.....
.....
.....
.....
.....
..... [4]

(c) State the advantages of interest on capital and interest on drawings.

(i) Advantage of interest on capital

to the partners

.....
.....

to the partnership

.....
.....

[2]

(ii) Advantage of interest on drawings

to the partners

.....
.....

to the partnership

.....
.....

[2]

(d) Explain how the terms of the partnership agreement will affect James and Lewis.

(i) James

.....
.....
.....
.....
.....
..... [2]

(ii) Lewis

.....
.....
.....
.....
.....
..... [2]

[Total: 15]

- 3 The equity and reserves section of Howard Limited's statement of financial position at 31 December 2014 was as follows:

| | |
|--------------------------------|-------------|
| | \$000 |
| Ordinary shares of \$0.50 each | 1400 |
| Share premium | 260 |
| Retained earnings | <u>195</u> |
| | <u>1855</u> |

During the year ended 31 December 2015, the following transactions took place:

| | |
|------------|--|
| February 1 | Issued 200 000 ordinary shares at \$0.70 each. |
| May 1 | Paid final dividend of \$0.04 per ordinary share on all shares in issue at 31 December 2014. |
| June 1 | Made a bonus issue of ordinary shares on the basis of two ordinary shares for every fifteen ordinary shares held at that date. |

REQUIRED

- (a) State the double entry to record **each** of these transactions. Dates and narratives are **not** required.

| Name of the account | Dr \$000 | Cr \$000 |
|---------------------|-------------|-------------|
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |

[6]

Additional information

On 1 August 2015, Howard Limited also made a rights issue of one ordinary share for every ten ordinary shares held at a price of \$0.60. All shareholders took up their rights.

REQUIRED

(b) Prepare a schedule showing the movement in the share premium account during the year ended 31 December 2015.

.....
.....
.....
.....
.....
..... [3]

(c) State **three** reasons why a company may make a bonus issue of shares.

1
.....
2
.....
3
..... [3]

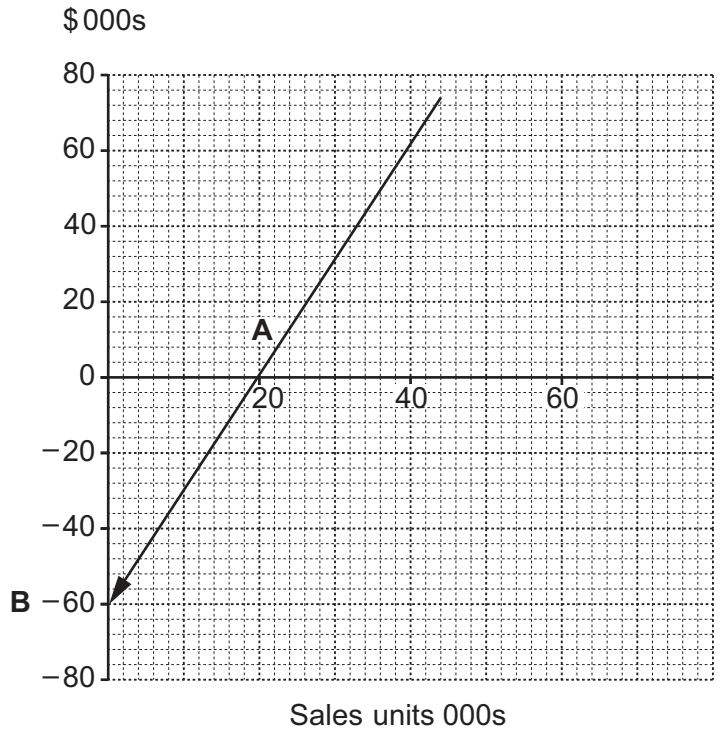
(d) State **three** differences between ordinary shares and preference shares.

1
.....
2
.....
3
..... [3]

[Total: 15]

[Turn over

- 4 Lin, a manufacturer, makes three products: X, Y and Z. He uses cost-volume-profit (CVP) analysis in his business. He has prepared the following profit/volume (P/V) chart for product X for the year ending 31 December 2016.



REQUIRED

(a) Identify from the P/V chart for the year ending 31 December 2016:

(i) what point A 20 000 represents

.....
 [1]

(ii) what point B (\$60 000) represents

.....
 [1]

(b) State what is meant by P/V ratio.

.....
 [1]

(c) State **two** benefits and **two** drawbacks of CVP analysis.

Benefits

1

.....

.....

2

.....

.....

Drawbacks

1

.....

2

.....

.....

[4]

Additional information

Lin has provided you with the following budgeted information for the year ending 31 December 2016.

| | X | Y | Z |
|------------------------------|--------|--------|--------|
| Annual sales (units) | 15 000 | 5 000 | 8 000 |
| | \$ | \$ | \$ |
| Selling price (per unit) | 8 | 10 | 7 |
| Variable cost (per unit) | 5 | 4 | 2 |
| Annual allocated fixed costs | 60 000 | 25 000 | 30 000 |

Lin is considering stopping production of X.

REQUIRED

(d) Calculate for the year ending 31 December 2016:

(i) the total contribution for each product

.....

.....

.....

.....

.....

.....

.....

.....

..... [3]

(ii) the total profit or loss for each product

.....

.....

.....

.....

.....

.....

.....

.....

..... [1]

REQUIRED

(f) Calculate the contribution gained or lost on **each** order.

.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....
.....

..... [5]

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.