Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

8932649015

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 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 **13** printed pages and **3** blank pages.

CAMBRIDGE International Examinations

1 Asif operates a delivery service and does not keep proper accounting records. He provided the following information for the year ended 30 June 2014.

	$
Cash in hand at 1July 2013	3270
Cash in hand at 30 June 2014	2349
Cash receipts and payments:	
Vehicle repairs	2400
Fuel payments for vehicles	14301
Driver's wages	4748
Rent of a garage	1600
Sundry expenses	2972
Drawings	11450
Receipts from sale of old vehicle	1300
Cash stolen by Asif's driver	430
Cash received from customers	?

REQUIRED

(a) Prepare Asif's cash account for the year ended 30 June 2014.

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Additional information

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Trade receivables at 1 July 2013	3766
Trade receivables at 30 June 2014	2863
Bad debts written off during the year ended 30 June 2014	1648

REQUIRED

(b) Calculate Asif's revenue figure for the year ended 30 June 2014.

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Additional information

1 The vehicle which had been sold was purchased in May 2012 for $6200. Asif's policy is to depreciate the vehicles at 50% per annum using the reducing balance method. A full year's depreciation is charged in the year of acquisition. No depreciation is charged in the year of disposal.

2 At 30 June 2014 driver's wages of $200 were owing and garage rent of $400 was prepaid.

Question 1(c) is on the next page.

REQUIRED

(c) Prepare Asif's income statement for the year ended 30 June 2014.

[12]

Additional information

Asif is considering introducing a system of credit control.

REQUIRED

(d) Explain the benefits this may bring to the business.

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(e) State **two** ratios that Asif could use to measure the profitability of his business.

1 ....

2 .... [2]

[Total: 30]

2 Lance, a trader, has provided the following balances at 30 November 2014 after the preparation of the income statement for the year.

	$000
Profit for the year	30
Non-current assets – at cost	500
–accumulated depreciation	200
Accrued expenses	20
Cash in hand	10
Bank overdraft	25
Inventory	80
Trade payables	35
Trade receivables	50
Bank loan (2020)	40
Opening capital	310
Drawings	20

REQUIRED

(a) Prepare the statement of financial position at 30 November 2014.

Lance
Statement of Financial Position at 30 November 2014

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(b) Calculate, stating the formula used, the following ratios correct to **two** decimal places.

Ratio	Formula	Calculation
Current		
Liquid (acid test)		

[4]

Additional information

Ratio	2012	2013
Current	2.0:1	2.30:1
Liquid (acid test)	1.40:1	1.0:1

REQUIRED

(c) Evaluate the change in Lance's liquidity position over the three years.

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Additional information

Lance has provided the following forecast for December 2014:

1 Sales are expected to be $75 000 of which 30% will be on a cash basis and the remainder payable the month after sale. All trade receivables outstanding at 30 November 2014 were expected to pay in full during December 2014.

2 Purchases are expected to be $45 000 of which 40% will be cash and the remainder payable the month after purchase. All trade payables at 30 November 2014 were expected to be paid in full during December 2014.

3 Business expenses of $12 500 will be paid in the month incurred.

4 Depreciation on non-current assets will be $9500 per month.

5 A loan of $25 000 will be negotiated with the bank and interest at 6% per annum will be paid on a monthly basis from December 2014 onwards.

REQUIRED

(d) Complete the following cash budget for December 2014.

Lance
Cash budget for December 2014

	$
Receipts	
Payments	
Net cash flow	
Opening balance	
Closing balance	

[10]

[Total: 30]

3 KC Global Limited provides the following budgeted information.

	January 2015	February 2015
Production	10 000 units	10 000 units
Sales	7 000 units	13 000 units
Production costs per unit:		
Direct materials	$4.50	$4.50
Direct labour	$6.00	$6.00
Variable overheads	$2.50	$2.50

Additional information

1 The budgeted selling price per unit is $17.

2 Budgeted production for the year is 120 000 units spread equally over the year.

3 There is no opening inventory at 1 January 2015.

4 Annual fixed overheads are budgeted to be $324 000.

5 Fixed overheads are absorbed on a unit basis.

REQUIRED

(a) Calculate the monthly breakeven point in units.

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(b) Prepare forecast profit statements for January and February 2015 using absorption costing.

	January 2015 $	February 2015 $

[4]

(c) Prepare forecast profit statements for January and February 2015 using marginal costing.

	January 2015 $	February 2015 $

[4]

(d) Prepare a reconciliation statement showing the difference between the absorption costing profit and the marginal costing profit for January and February 2015.

	January 2015 $	February 2015 $
Absorption costing profit		
Marginal costing profit		

[4]

(e) Explain why the absorption costing statement produces a different profit figure to the marginal costing statement.

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Additional information

The directors of KC Global Limited are considering an advertising campaign starting in January 2015. This will cost $60 000 spread evenly over the year. The volume of sales and production would both increase by 10%.

REQUIRED

(f) Prepare a revised profit statement for January 2015, using absorption costing.

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(g) State **three** situations where marginal costing would help in making a short term decision.

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(h) Evaluate the limitations of marginal costing.

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[Total: 30]

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