Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

Paper 2 Structured Questions

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 14 printed pages and 2 blank pages.
1 Patel, a sole trader, does not keep proper books of account. He provided the following information.

<table>
<thead>
<tr>
<th></th>
<th>1 January 2014</th>
<th>31 December 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and buildings at cost</td>
<td>50 000</td>
<td>50 000</td>
</tr>
<tr>
<td>Fixtures and fittings at valuation</td>
<td>6 000</td>
<td>4 500</td>
</tr>
<tr>
<td>Motor vehicles at net book value</td>
<td>7 600</td>
<td>?</td>
</tr>
<tr>
<td>Trade payables</td>
<td>16 750</td>
<td>14 900</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>14 670</td>
<td>13 690</td>
</tr>
<tr>
<td>Wages owing</td>
<td>1 200</td>
<td>1 400</td>
</tr>
<tr>
<td>Inventory</td>
<td>21 750</td>
<td>22 450</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>800</td>
<td>950</td>
</tr>
<tr>
<td>Rent in advance</td>
<td>1 000</td>
<td>?</td>
</tr>
</tbody>
</table>

Summary of Patel’s bank account for the year showed the following.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance b/d</td>
<td>16 980</td>
<td>Payments to credit suppliers 109 620</td>
</tr>
<tr>
<td>Receipts from credit customers</td>
<td>156 420</td>
<td>Wages 22 670</td>
</tr>
<tr>
<td>Cash sales</td>
<td>20 700</td>
<td>Rent 19 000</td>
</tr>
<tr>
<td>Proceeds from sale of motor vehicle</td>
<td>1 500</td>
<td>Electricity 8 650</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General expenses 4 750</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Purchase of new motor vehicle 16 400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance c/d 14 510</td>
</tr>
<tr>
<td></td>
<td>195 600</td>
<td>195 600</td>
</tr>
</tbody>
</table>

Additional information

1 Before banking his receipts from cash sales Patel took $400 per month for his personal drawings. All other payments were made from the bank.

2 During the year he took goods costing $2 600 for his own use.

3 Patel depreciates his vehicles at 20% per annum using the reducing balance method. A full year’s depreciation is charged in the year of purchase. No depreciation is provided in the year of sale.

4 The vehicle sold had a net book value at 1 January 2014 of $2 880.

5 A customer has been declared bankrupt and will not pay $750 owing. The amount was included in the trade receivables at 31 December 2014.

6 In addition Patel has decided to create a provision for doubtful debts of 5%.

7 The rent payable is $16 000 per annum.
REQUIRED

(a) Prepare Patel’s income statement for the year ended 31 December 2014.

[15]
(b) Prepare Patel's statement of financial position at 31 December 2014.
Additional information

Patel wishes to expand his business and is undecided about taking out a five year loan or asking the bank for an overdraft.

REQUIRED

(c) State one advantage and one disadvantage of each option.

Five year loan

Advantage

Disadvantage

Bank overdraft

Advantage

Disadvantage

[Total: 30]
Bradley, a sole trader, provided the following information for the year ended 31 March 2014.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>420,000</td>
</tr>
<tr>
<td>Opening inventory</td>
<td>40,000</td>
</tr>
</tbody>
</table>

The rate of mark up is 40%.

The rate of inventory turnover is 5 times per annum.

**REQUIRED**

(a) Explain what is meant by mark up.

(b) Prepare the trading section of the income statement for the year ended 31 March 2014.
Workings:

(c) State the formula for calculating margin.

Additional information

At 31 March 2014, the net book value of the non-current assets was $550,000.

REQUIRED

(d) (i) Explain what the non-current asset turnover measures.

[4]
(ii) State the formula to calculate the non-current asset turnover ratio. Calculate the non-current asset turnover ratio correct to two decimal places.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Formula</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>non-current asset turnover</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(e) Explain why a provision for doubtful debts may be necessary.

Additional information
Bradley provides for doubtful debts at the rate of 4%.
The provision for doubtful debts at 1 April 2013 was $1650.
Trade receivables at 31 March 2014 were $35000.

REQUIRED
(f) Prepare Bradley’s provision for doubtful debts account for the year ended 31 March 2014.
(g) State how the provision for doubtful debts is shown in:

(i) income statement

(iii) statement of financial position

[Total: 30]
3 Bould Limited manufactures two products, Wye and Zed. The forecast data for the year ending 30 June 2016 is as follows.

<table>
<thead>
<tr>
<th></th>
<th>Wye</th>
<th>Zed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$840,000</td>
<td>$720,000</td>
</tr>
<tr>
<td>from Wye</td>
<td>70,000 units at $12</td>
<td>90,000 units at $8</td>
</tr>
<tr>
<td>Materials</td>
<td>(259,000)</td>
<td>(180,000)</td>
</tr>
<tr>
<td>Labour</td>
<td>(233,000)</td>
<td>(372,000)</td>
</tr>
<tr>
<td>Overheads</td>
<td>(190,000)</td>
<td>(207,000)</td>
</tr>
<tr>
<td>Profit / (Loss)</td>
<td>158,000</td>
<td>(39,000)</td>
</tr>
</tbody>
</table>

Labour includes fixed costs 65,000 48,000
Overheads include fixed costs 36,000 45,000

**REQUIRED**

(a) Calculate the contribution per unit of Wye.

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………………………………………………………………………………………………………………………………………………………………………………………… [4]
(b) Calculate the contribution per unit of Zed.

(c) Calculate the break-even point in units of Zed.

(d) Calculate the break-even point in revenue of Zed.
(e) Calculate the margin of safety in revenue for Zed.

Additional information

The directors are concerned about the forecast loss of manufacturing Zed and are considering two proposals.

Proposal 1
Increase the selling price of Zed by $1.20 per unit. The sales volume is expected to fall by 5% as a result.

Proposal 2
Stop manufacturing Zed. This will incur redundancy costs of $20,000. There would be an increased additional budget facility for advertising Wye, which would increase sales volume of Wye by 40%.
REQUIRED

(f) Calculate the revised forecast profit of Bould Limited for the year ended 30 June 2016 if proposal 1 is adopted.

[5]

(g) Calculate the revised forecast profit if proposal 2 is adopted.

[5]
(h) Advise, with reasons, which proposal the directors should adopt.

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

[Total: 30]