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 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.
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:

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

Additional information

1. Inventory at 31 December 2015 is valued at a cost of $105,000.

2. 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.

3. 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.

4. Trade receivables includes a debt of $9,000 which is to be written off to administrative expenses at 31 December 2015.

5. The directors wish to make provision for doubtful debts of 3% of trade receivables. The adjustment should be charged to administrative expenses.

6. 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.

7. 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.
(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

<table>
<thead>
<tr>
<th></th>
<th>Share capital $000</th>
<th>Share premium $000</th>
<th>Revaluation reserve $000</th>
<th>General reserve $000</th>
<th>Retained earnings $000</th>
<th>Total $000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(c) Prepare the statement of financial position for Bayliss Limited at 31 December 2015.
Additional information

The 5% debentures are due for repayment in the next two years. The directors of Bayliss Limited are considering the following two options to raise the necessary finance to repay the $80,000.

1. Issue 160,000 ordinary shares of $0.50 each.
2. Issue a further debenture of $80,000.

REQUIRED

(d) (i) Discuss the impact of each option on the future profits of Bayliss Limited.

(ii) Advise the directors which option they should choose. Give reasons for your decision.
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.

(f) State one example of a capital reserve.
The following information has been extracted from the financial statements of Thaw Limited at 31 December 2015.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>156,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>88,000</td>
</tr>
<tr>
<td>Inventory at 31 December 2015</td>
<td>42,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>48,000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>39,000</td>
</tr>
<tr>
<td>Other receivables</td>
<td>2,000</td>
</tr>
<tr>
<td>Cash in hand</td>
<td>1,000</td>
</tr>
<tr>
<td>Trade payables</td>
<td>29,000</td>
</tr>
<tr>
<td>Other payables</td>
<td>8,000</td>
</tr>
<tr>
<td>Bank overdraft</td>
<td>10,000</td>
</tr>
<tr>
<td>8% debenture (2019 – 2021)</td>
<td>6,000</td>
</tr>
</tbody>
</table>

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.

(ii) Liquid (acid test) ratio to two decimal places.
(iii) Trade receivables turnover (days)

(iv) Trade payables turnover (days)

(v) Inventory turnover (days)

(b) Discuss the ratios calculated in part (a) in respect of Thaw Limited’s liquidity and comment on the overall position.
(c) Explain three limitations of ratio analysis.
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:

\[
\begin{array}{l}
\text{Non-current assets} \\
\quad \text{Land and buildings} \quad 60,000 \\
\quad \text{Motor vehicles} \quad 10,000 \\
\quad \text{Total} \quad 70,000 \\
\text{Current assets} \\
\quad \text{Inventory} \quad 14,000 \\
\quad \text{Trade receivables} \quad 16,000 \\
\quad \text{Total} \quad 30,000 \\
\text{Total assets} \quad 100,000 \\
\end{array}
\]

\[
\begin{array}{l}
\text{Capital and liabilities} \\
\quad \text{Capital accounts} \\
\quad \text{Wang} \quad 40,000 \\
\quad \text{Yuan} \quad 25,000 \\
\quad \text{Total} \quad 65,000 \\
\quad \text{Current accounts} \\
\quad \text{Wang} \quad -10,000 \\
\quad \text{Yuan} \quad 13,000 \\
\quad \text{Total} \quad 3,000 \\
\text{Current liabilities} \\
\quad \text{Trade payables} \quad 26,000 \\
\quad \text{Bank} \quad 6,000 \\
\quad \text{Total} \quad 32,000 \\
\text{Total capital and liabilities} \quad 100,000 \\
\end{array}
\]

Additional information

1. Land and buildings were sold for $70,000.
2. Yuan took one vehicle at an agreed value of $3,000 and the remaining vehicle was sold for $3,500.
3. Trade receivables realised $15,000.
4. Trade payables were paid after taking a discount of $1,500.
5. The inventory was sold for $12,000.
6. The expenses of dissolution were $1,700.
REQUIRED

(a) Prepare the partnership realisation account.

(b) Calculate the amount due to each partner when the bank account is closed on dissolution.
(c) State two reasons why a partner may have an overdrawn current account.

1 .............................................................................................................................................

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

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

2 .............................................................................................................................................

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

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

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

................................................................................................................................................ [1]

[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. [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

(ii) in revenue [4]
(c) Prepare a break-even chart for product X.
(d) Calculate the margin of safety.

(i) in units

(ii) as a percentage

[4]

Additional information

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

The following information is available.

<table>
<thead>
<tr>
<th></th>
<th>Y</th>
<th>Z</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct material</td>
<td>$2</td>
<td>$4</td>
</tr>
<tr>
<td>Direct labour ($5 per hour)</td>
<td>$10</td>
<td>$5</td>
</tr>
<tr>
<td>Variable overhead</td>
<td>$1.5</td>
<td>$1.5</td>
</tr>
<tr>
<td>Selling price</td>
<td>$23</td>
<td>$18</td>
</tr>
</tbody>
</table>

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.

[2]
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.

.................................................................................................................................................. [1]

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.

.................................................................................................................................................. [5]
Additional information

Rahel has to meet the forecast demand in April as she has contracts with her customers. In order to achieve this she has two alternatives.

1. Ask the workers to work overtime.
2. Buy in the products from another supplier.

REQUIRED

(h) Advise Rahel which option she should choose. Justify your answer.

[5]

(i) State one advantage and one disadvantage of marginal costing.

Advantage

Disadvantage

[4]

[Total: 30]