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.
Jing is a sole trader. He does not maintain full accounting records. All sales and purchases are on credit.

He provided the following information for the year ended 30 April 2015.

<table>
<thead>
<tr>
<th></th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheques received from credit customers</td>
<td>96 300</td>
</tr>
<tr>
<td>Cheques paid to credit suppliers</td>
<td>73 540</td>
</tr>
<tr>
<td>Rent paid</td>
<td>5 500</td>
</tr>
<tr>
<td>Electricity paid</td>
<td>345</td>
</tr>
<tr>
<td>Carriage inwards</td>
<td>630</td>
</tr>
<tr>
<td>Carriage outwards</td>
<td>950</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>95</td>
</tr>
<tr>
<td>Irrecoverable debts written off</td>
<td>200</td>
</tr>
<tr>
<td>Purchases returns</td>
<td>2 480</td>
</tr>
</tbody>
</table>

Jing had the following assets and liabilities.

<table>
<thead>
<tr>
<th></th>
<th>At 30 April 2014</th>
<th>At 30 April 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Inventory</td>
<td>15 000</td>
<td>11 500</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>3 750</td>
<td>2 250</td>
</tr>
<tr>
<td>Rent prepaid</td>
<td>500</td>
<td>400</td>
</tr>
<tr>
<td>Electricity owing</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Trade payables</td>
<td>3 460</td>
<td>1 790</td>
</tr>
</tbody>
</table>

All equipment was originally purchased for $2700 on 1 May 2013. Jing depreciates his equipment using the reducing balance method at a rate of 10% per annum.

REQUIRED

(a) (i) Calculate the sales for the year ended 30 April 2015.

(b) (ii) Calculate the purchases for the year ended 30 April 2015.
(iii) Prepare Jing’s income statement for the year ended 30 April 2015.

Jing

Income Statement for the year ended 30 April 2015

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........................................................................................... [11]
Additional information

After preparing the financial statements, Jing remembered the following:

He had paid his cleaner $60 cash, out of his own money, to clean the offices and his house. He agreed that this should be split in the ratio 3:2 respectively.

REQUIRED

(b) Prepare the journal entry to record this transaction. A narrative is not required.

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

(c) State two types of entries, other than the correction of errors, which would usually be recorded in the general journal.

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

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

Additional information

Jing calculated the gross margin and the profit margin for his business. He discovered that the gross margin had decreased for the year ended 30 April 2015. For the same period the profit margin had increased.
REQUIRED

(d) Assess the performance of the business for the year ended 30 April 2015. Suggest possible reasons for the changes.

(e) State three benefits to a business of using ratios.

[Total: 30]
2 Colin, Darim and Emran are in partnership sharing profits and losses in the ratio 3 : 2 : 1. Their statement of financial position at 30 November 2015 was as follows:

<table>
<thead>
<tr>
<th>Non-current assets (at net book value)</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>135 000</td>
</tr>
<tr>
<td>Machinery</td>
<td>84 000</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>36 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>255 000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current assets</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>56 000</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>48 000</td>
</tr>
<tr>
<td>Bank</td>
<td>21 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>125 000</strong></td>
</tr>
</tbody>
</table>

| Total assets                           | $800 000 |

<table>
<thead>
<tr>
<th>Capital and liabilities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital accounts</td>
<td></td>
</tr>
<tr>
<td>Colin</td>
<td>120 000</td>
</tr>
<tr>
<td>Darim</td>
<td>80 000</td>
</tr>
<tr>
<td>Emran</td>
<td>40 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>240 000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current accounts</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colin</td>
<td>56 000</td>
</tr>
<tr>
<td>Darim</td>
<td>16 000</td>
</tr>
<tr>
<td>Emran</td>
<td>36 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>108 000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>32 000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>380 000</strong></td>
</tr>
</tbody>
</table>

Additional information

1 Darim retired on 1 December 2015. Colin and Emran continued in partnership sharing profits and losses in the ratio 2 : 1.

2 Goodwill was valued at $48 000. It does not appear in the partnership’s financial statements.

3 Darim took over one of the partnership motor vehicles at a net book value of $8 000.

4 The partners agreed to revalue some of the remaining assets as follows:

<table>
<thead>
<tr>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
</tr>
<tr>
<td>Motor vehicles</td>
</tr>
<tr>
<td>Inventory</td>
</tr>
<tr>
<td>Trade receivables</td>
</tr>
</tbody>
</table>

5 Darim agreed to receive $50 000 as part of the amount owing to him on his retirement. The balance owing to him was to remain in the partnership as a loan to be repaid in 2018.
REQUIRED

(a) Prepare the revaluation account on Darim’s retirement on 1 December 2015.

Revaluation account

Additional information

To help fund the payment to Darim on his retirement, Emran paid additional capital into the partnership bank account. After this payment had been made the balance on Emran’s capital account was $65,000.

REQUIRED

(b) Prepare a statement to show how much cash Emran paid into the partnership bank account.
(c) State three advantages to a sole trader of forming a partnership.

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

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

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

(d) State three reasons why partnerships maintain separate capital accounts and current accounts for each partner.

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

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

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

[Total: 15]
Miu is a sole trader and prepares her financial statements to 31 May each year. She depreciates her motor vehicles using the reducing balance method at a rate of 20% per annum. Depreciation is charged monthly.

REQUIRED

(a) State what is meant by depreciation of non-current assets.

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

(b) State three causes of depreciation of non-current assets.

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

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

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

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

3 ...........................................................................................................................................................................

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

Additional information

Miu purchased a motor vehicle on 1 June 2013 for $152 000.

On 1 March 2015, a new motor vehicle was purchased at a cost of $190 000. The old motor vehicle was part-exchanged at a value of $84 000.

The balance was settled by a bank loan repayable over 3 years.
REQUIRED

(c) (i) Prepare the motor vehicles at cost account for the year ended 31 May 2015.

Miu
Motor vehicles at cost account

(ii) Prepare the motor vehicle provision for depreciation account for the years ended 31 May 2014 and 31 May 2015.

Miu
Motor vehicles provision for depreciation account
(iii) Calculate the profit or loss on disposal of the motor vehicle purchased on 1 June 2013.

Additional information

Miu is considering the effect it would have on her financial statements if she sold motor vehicles for cash rather than part-exchange them in the future.

REQUIRED

(d) Advise Miu of the effect on her financial statements if she had not part-exchanged the motor vehicle but had sold it for $80,000 cash.
Bruna Limited is a manufacturing company. It operates three production departments and two service departments. The costs are allocated to each department as follows:

<table>
<thead>
<tr>
<th></th>
<th>Production departments</th>
<th>Service departments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Machining</td>
<td>Assembly</td>
</tr>
<tr>
<td>Indirect labour</td>
<td>253 000</td>
<td>290 000</td>
</tr>
<tr>
<td>Other indirect overhead costs</td>
<td>205 000</td>
<td>90 000</td>
</tr>
</tbody>
</table>

The service departments costs are allocated to the production departments as follows:

- Stores in proportion to the number of stores requisitions
- Canteen in proportion to number of employees.

The following information is available:

<table>
<thead>
<tr>
<th></th>
<th>Machining</th>
<th>Assembly</th>
<th>Finishing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct labour hours</td>
<td>15 000</td>
<td>60 000</td>
<td>40 000</td>
</tr>
<tr>
<td>Machine hours</td>
<td>45 000</td>
<td>30 000</td>
<td>25 000</td>
</tr>
<tr>
<td>Number of employees</td>
<td>5</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Number of stores requisitions</td>
<td>6300</td>
<td>4500</td>
<td>7200</td>
</tr>
</tbody>
</table>
REQUIRED

(a) Calculate, to two decimal places, a suitable overhead absorption rate for each of the three production departments.
**Additional information**

Bruna Limited has been approached by a customer to quote for one of their products. This will require the following:

Direct materials  20 kilos at $5 per kilo  
Direct labour  10 hours at $9 per hour

Direct labour hours and machine hours required in each department will be:

<table>
<thead>
<tr>
<th></th>
<th>Machining</th>
<th>Assembly</th>
<th>Finishing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct labour hours</td>
<td>5</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Machine time</td>
<td>2 hours</td>
<td>30 minutes</td>
<td>20 minutes</td>
</tr>
</tbody>
</table>

It is the company’s practice to achieve a gross margin of 40% on all its products.

**REQUIRED**

**(b)** Calculate the total price to quote to the customer.
Additional information

The directors are considering changing from departmental overhead absorption rates to one factory-wide rate.

REQUIRED

(c) Advise the directors whether or not they should make this change. Justify your answer.

(d) Explain how over absorption and under absorption of overheads can affect the profit of a manufacturing business.

[Total: 30]