



Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

| CANDIDATE NAME | | | | |
|-------------------|--|---------------------|--|--|
| CENTRE NUMBER | | CANDIDATE NUMBER | | |

ACCOUNTING 9706/22

Paper 2 Structured Questions

May/June 2015
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.



1 Khalid owns a wholesale business selling electrical goods. He does not keep proper books of account, but is able to provide the following information.

Balances at 1 January 2014

| | \$ |
|--|--------|
| Motor vehicle at cost | 38400 |
| Motor vehicle provision for depreciation | 12600 |
| Fixtures and fittings at cost | 41940 |
| Fixtures and fittings provision for depreciation | 22680 |
| Trade receivables | 26610 |
| Trade payables | 19920 |
| Inventory | 33 500 |
| Prepayment of two months' property rental | 3750 |
| General expenses accrued | 410 |
| Cash in hand | 360 |

Summary of bank account for the year ended 31 December 2014

| • | _ | • | _ |
|--------------------------------|----------------|------------------------------|----------------|
| | Dr | | Cr |
| | \$ | | \$ |
| Balance at 1 January 2014 | 4110 | Payments to credit suppliers | 134 750 |
| Receipts from credit customers | 200270 | Drawings | 22 185 |
| Cash sales banked | 9675 | Property rental | 20625 |
| Balance at 31 December 2014 | 11295 | General expenses | 6 6 5 0 |
| | | Purchase of motor vehicle | 10 100 |
| | | Wages and salaries | 26 150 |
| | | Motor expenses | 4890 |
| | <u>225 350</u> | | <u>225 350</u> |

REQUIRED

| (a) | Calculate Khalid's opening capital at 1 January 2014. |
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- 1 For the year ended 31 December 2014: Credit sales \$193400 Cash sales \$15180
- 2 Trade payables at 31 December 2014 were \$21590.
- 3 All sales are made at 30% gross profit margin.

REQUIRED

| (b) | Cal | culate the following for the year ended 31 December 2014. | |
|-----|------|--|----|
| | (i) | Sales revenue | |
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| | (ii) | Purchases | |
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| (c) | Cal | culate the value of closing inventory at 31 December 2014. | |
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Before banking his receipts from cash sales, Khalid took \$400 per month for his personal drawings. The only other cash payments during the year were for motor expenses.

Cash in hand at 31 December 2014 was \$460.

REQUIRED

| (d) | Prepare the cash account for the year ended 31 December 2014 to identify the cash payment made for motor expenses. |
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Additional information

- 1 Khalid allowed a total of \$914 discount to credit customers.
- 2 Motor vehicles are depreciated at 25% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase, but none in the year of sale.
- During the year, a motor vehicle that had cost \$16 000 on 1 July 2012 was traded in for \$8200. The balance of the purchase price for the new vehicle was paid by cheque.
- 4 Fixtures and fittings are depreciated at 15% per annum using the reducing balance method. There were no additions or sales of fixtures and fittings during the year.
- 5 There was no accrual for general expenses at 31 December 2014.
- 6 Prepaid rent at 31 December 2014 was \$1875.

REQUIRED

| (e) | Prepare Khalid's income statement for the year ended 31 December 2014. | |
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2 Kim, a sole trader, provided the following statement.

Statement of financial position at 30 September 2014

| | \$ |
|---|--|
| Non-current assets Motor vehicles Equipment Fixtures and fittings | 100 000 80 000 <u>172 000</u> <u>352 000</u> |
| Current assets Inventory Trade receivables | 105 000 343 000 448 000 |
| Total assets | 800 000 |
| Capital and liabilities Opening capital Add profit for the year Less Drawings | 600 000 <u>80 000</u> 680 000 <u>88 000</u> <u>592 000</u> |
| Current liabilities Trade payables Bank overdraft | 192 000 16 000 208 000 |
| Total capital and liabilities | <u>800 000</u> |

Additional information

- 1 On 1 October 2014 Kim admitted Chan as a partner.
- **2** Goodwill was valued at \$120 000 but will not remain in the books of the partnership.
- 3 The profit sharing ratio was agreed at Kim 60% and Chan 40%.
- 4 Chan agreed to pay a cheque of \$160 000 to the partnership. In addition he introduced equipment valued at \$325 000 and inventory valued at \$26 000.

REQUIRED

| (a) | Prepare the capital accounts of Kim and Chan at 1 October 2014. |
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| (b) | Prepare a statement of financial position for the partnership at 1 October 2014. |
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| (c) | State three advantages to Kim of forming a partnership. |
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| Add | ditional information |
| Kim | has provided for doubtful debts at a rate of 2%. |
| Cha | an would like to change the existing rate of the provision to 5%. |
| RE | QUIRED |
| (d) | Explain why this change might be necessary. |
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| (e) | Calculate the difference in the provision for doubtful debts if the existing rate had changed to 5%. |
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| (f) | State how this change would affect the partnership's income statement and statement of financial position. |
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[Total: 30]

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3 Kapoor Limited is a company which has **two** production departments, machining and finishing, and **two** service departments, maintenance and canteen. The following information is available.

The forecast overheads for the year ending 31 March 2015 were as follows.

| | \$ |
|----------------------|--------|
| Power | 32000 |
| Machine depreciation | 28400 |
| Supervision | 28 000 |
| Rent and rates | 26 000 |
| Buildings insurance | 11000 |
| Light and heat | 9000 |

The following additional information is available.

| | Machining | Finishing | Maintenance | Canteen |
|----------------------------------|-----------|-----------|-------------|---------|
| Number of employees | 16 | 24 | 8 | _ |
| Floor area (square metres) | 12000 | 14 000 | 3 0 0 0 | 1000 |
| Net book value of machinery (\$) | 140 000 | 25 000 | 13 000 | 2000 |
| Kilowatt hours | 6000 | 3 0 0 0 | 2000 | 1000 |
| Maintenance department hours | 66% | 34% | _ | _ |

REQUIRED

(a) Apportion the forecast overheads to the **four** departments and re-apportion the service departments' costs to production departments using a suitable basis for each.

| | Basis | Total \$ | Machining \$ | Finishing \$ | Maintenance \$ | Canteen \$ |
|--------------------------------|-------|-------------|-----------------|-----------------|-------------------|---------------|
| Power | | | | | | |
| Machine depreciation | | | | | | |
| Supervision | | | | | | |
| Rent and rates | | | | | | |
| Buildings insurance | | | | | | |
| Light and heat | | | | | | |
| Total apportioned overheads | | | | | | |
| Reapportionment of canteen | | | | | | |
| Subtotal | | | | | | |
| Reapportionment of maintenance | | | | | | |
| Total | | | | | | |

[10]

The following information for the year is also provided.

| | idgeted machine hours idgeted direct labour hours | Machining 58 000 26 000 | Finishin 8 000 42 000 | 400 | 0 | anteen – – |
|-----|--|-------------------------------|---|--|-----------------|--------------------|
| RE | QUIRED | | | | | |
| (b) | Calculate an appropriate over decimal places. | rhead absorp | tion rate for | each product | ion departn | nent to two |
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| Add | ditional information | | | | | |
| The | e actual results for the year end | ed 30 March 2 | 2015 were a | s follows. | | |
| | Factory overheads Direct labour hours Direct machine hours | I | Machining \$82 436 27 410 56 120 | Finishing \$56 980 41 295 7 310 | | |
| RE | QUIRED | | | | | |
| (c) | Calculate the under absorpt department. | tion or over | absorption | of overheads | for each | production |
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| (d) | State two reasons for the under absorption or over absorption of overheads, calculated part (c) , for each department. | ni k |
|-----|---|------|
| | Machining reason 1 | |
| | | |
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| | Machining reason 2 | |
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| | Finishing reason 1 | |
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| | Finishing reason 2 | |
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| (e) | Explain why estimated figures are used to calculate overhead absorption rates. | |
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Kapoor Limited produces a single component. The directors have been asked to prepare a quotation for a customer who requires 150 units of the component. Kapoor Limited requires 45% gross profit on mark-up on this order.

Product information

| Direct materials | \$9.40 |
|---------------------------------|-------------------------------|
| Direct labour hours – machining | 45 minutes at \$8.40 per hour |
| Direct labour hours – finishing | 20 minutes at \$6.60 per hour |
| Machine hours – machining | 30 minutes |
| Machine hours – finishing | 10 minutes |

REQUIRED

| Calculate the full invoice value of the order. |
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[Total: 30]

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