UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

1132581871

ACCOUNTING **9706/23**

Paper 2 Structured Questions **May/June 2012**

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 a soft pencil for rough working.
Do not use staples, paper clips, highlighters, 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.

For Examiner's Use	
1	
2	
3	
Total	

This document consists of **14** printed pages and **2** blank pages.

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[Turn over

1 Shaun is a sole trader. He pays all the sales receipts into the business bank account. He provided his accountant with the following information for the year ended 31 December 2011.

Bank account summary for the year ended 31 December 2011

Dr.	$	Cr.	$
Rent received	16 800	Balance b/d	5 620
Trade receivables	203 200	Trade payables	122 460
Cash sales	18 510	General expenses	22 000
		Wages	32 560
		Motor vehicles	19 200
		Equipment	17 400
		Drawings	27 560

Shaun's remaining assets and liabilities were:

	1 January 2011	31 December 2011
	$	$
Inventory (at cost)	22 300	17 400
Premises (at cost)	100 000	100 000
Equipment (net book value)	28 400	27 600
Motor vehicles (net book value)	65 000	68 200
Trade receivables	22 400	28 600
Trade payables	17 500	19 470
General expenses prepaid	1 100	900
Rent received prepaid	800	–
Rent received owing	–	1 300
Wages owing	2 400	500

Additional information:

1 Shaun allowed his customers discounts of $4000.

2 Discounts received from suppliers were $3100.

3 Shaun has decided to create a provision for doubtful debts of 2% of the trade receivables outstanding at 31 December 2011.

4 General expenses in the bank account summary include an amount of $660 which relates to the payment of Shaun's private house insurance.

5 Shaun had taken goods at a cost price of $3700 for his personal use.

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REQUIRED

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(a) Calculate the value of Shaun's sales and ordinary goods purchased for the year ended 31 December 2011.

(i) Sales

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(ii) Ordinary goods purchased

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(b) Prepare Shaun's income statement for the year ended 31 December 2011.

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[10]

(c) Prepare Shaun's statement of financial position at 31 December 2011.

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[12]

[Total: 30]

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2 Amirtha commenced business on 1 January 2010. During the first two years of business the following non-current assets were purchased on the dates shown:

	Motor vehicles	
2010		$
1 January	MV1	26 000
1 July	MV2	18 000
2011		
1 April	MV3	24 000

	Equipment	
2010		
1 January	EQ1	30 000
2011		
1 January	EQ2	44 000

Amirtha has a policy to depreciate motor vehicles at 20% per annum on cost (straight line method) and equipment at 15% per annum on cost (straight line method), rates being charged for each month of ownership.

REQUIRED

(a) Calculate the total depreciation for each of the years 2010 **and** 2011.

(i) Motor vehicles

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(ii) Equipment

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Early in 2012, consideration was given to changing to the reducing (diminishing) balance method, with the following rates applying to the balance at the end of each year.

Motor vehicles	25%
Equipment	20%

A full year's depreciation would be charged irrespective of the date of purchase.

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REQUIRED

(b) Calculate the total depreciation for **each** of the years 2010 **and** 2011, using the reducing (diminishing) balance method for:

(i) Motor vehicles

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(ii) Equipment.

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The original profits for the first two years in business were:

2010	$86 000
2011	$94 000

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REQUIRED

(c) Prepare a statement to show the revised profits for the years 2010 and 2011, if the reducing (diminishing) balance method had been used.

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(d) Explain why it is appropriate to use the reducing (diminishing) balance method for motor vehicles.

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The following information is also available from the books of Amirtha.

	1 January 2011 $	31 December 2011 $
Wages	2 040 accrued	2 130 accrued
Insurance	130 accrued	610 prepaid
Rent received	1 490 prepaid	1 320 prepaid

During the year ended 31 December 2011 the following transactions took place.

	$
Wages paid	24 100
Insurance paid	1 400
Rent received	14 000

All transactions are through the bank account.

REQUIRED

(e) Prepare the following ledger accounts for the year ended 31 December 2011, showing the closing entry to the financial statements at the end of the year. Dates are not required.

(i) Wages account

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(ii) Insurance account

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(iii) Rent received account

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[Total: 30]

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3 Wigmore Ltd uses one factory overhead recovery rate which is a percentage of total direct labour costs. The rate is calculated from the following budgeted data.

Department	Factory overheads $	Direct labour costs $	Direct labour hours	Direct machine hours
Production	150 000	500 000	120 000	7 000
Assembly	450 000	1 000 000	225 000	10 000
Packing	360 000	900 000	200 000	–

The cost sheet for job 787 shows the following information.

Department	Direct labour costs $	Direct labour hours	Direct machine hours	Direct material costs $
Production	2 400	400	80	180
Assembly	1 100	700	90	150
Packing	1 000	650	–	170

General administration expenses of 20% are added to the total factory cost. The selling price to the customer is based on a 25% net profit margin.

REQUIRED

(a) Calculate the current factory overhead rate for Wigmore Ltd.

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(b) Prepare a detailed cost statement to calculate the selling price for job 787.

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(c) Calculate the overhead rate for **each department** using the following methods:

(i) Percentage of direct labour cost

Production

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Assembly

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Packing

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(ii) Direct labour hour rate

Production

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Assembly

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Packing

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(d) Using the direct labour hour rates calculated in **(c) (ii)**, prepare a detailed cost statement to calculate the new selling price for job 787.

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(e) **(i)** Discuss the problems associated with using predetermined overhead absorption rates.

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(ii) State the effect on profits if the factory **does not** operate at full capacity.

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[Total: 30]

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