Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER | | | | | |

CANDIDATE NUMBER | | | | |

1883922262

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.

This document consists of **15** printed pages and **1** blank page.

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[Turn over

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	38 400
Motor vehicle provision for depreciation	12 600
Fixtures and fittings at cost	41 940
Fixtures and fittings provision for depreciation	22 680
Trade receivables	26 610
Trade payables	19 920
Inventory	33 500
Prepayment of two months' property rental	3 750
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	4 110	Payments to credit suppliers	134 750
Receipts from credit customers	200 270	Drawings	22 185
Cash sales banked	9 675	Property rental	20 625
Balance at 31 December 2014	11 295	General expenses	6 650
		Purchase of motor vehicle	10 100
		Wages and salaries	26 150
		Motor expenses	4 890
	225 350		225 350

REQUIRED

(a) Calculate Khalid's opening capital at 1 January 2014.

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Additional information

1 For the year ended 31 December 2014:
Credit sales $193 400
Cash sales $15 180

2 Trade payables at 31 December 2014 were $21 590.

3 All sales are made at 30% gross profit margin.

REQUIRED

(b) Calculate the following for the year ended 31 December 2014.

(i) Sales revenue

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..... [1]

(ii) Purchases

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..... [1]

(c) Calculate the value of closing inventory at 31 December 2014.

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Additional information

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.

[4]

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.

3 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.

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REQUIRED

(e) Prepare Khalid's income statement for the year ended 31 December 2014.

[16]

[Total: 30]

2 Kim, a sole trader, provided the following statement.

Statement of financial position at 30 September 2014

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

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.

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REQUIRED

(a) Prepare the capital accounts of Kim and Chan at 1 October 2014.

[10]

(b) Prepare a statement of financial position for the partnership at 1 October 2014.

[8]

(c) State **three** advantages to Kim of forming a partnership.

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Additional information

Kim has provided for doubtful debts at a rate of 2%.

Chan would like to change the existing rate of the provision to 5%.

REQUIRED

(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	32 000
Machine depreciation	28 400
Supervision	28 000
Rent and rates	26 000
Buildings insurance	11 000
Light and heat	9 000

The following additional information is available.

	Machining	Finishing	Maintenance	Canteen
Number of employees	16	24	8	–
Floor area (square metres)	12 000	14 000	3 000	1 000
Net book value of machinery ($)	140 000	25 000	13 000	2 000
Kilowatt hours	6 000	3 000	2 000	1 000
Maintenance department hours	66%	34%	–	–

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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]

Additional information

The following information for the year is also provided.

	Machining	Finishing	Maintenance	Canteen
Budgeted machine hours	58 000	8 000	4 000	–
Budgeted direct labour hours	26 000	42 000	12 000	–

REQUIRED

(b) Calculate an appropriate overhead absorption rate for **each** production department to **two** decimal places.

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..... [4]

Additional information

The actual results for the year ended 30 March 2015 were as follows.

	Machining	Finishing
Factory overheads	$82 436	$56 980
Direct labour hours	27 410	41 295
Direct machine hours	56 120	7 310

REQUIRED

(c) Calculate the under absorption or over absorption of overheads for **each** production department.

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..... [4]

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(d) State **two** reasons for the under absorption or over absorption of overheads, calculated in part **(c)**, for **each** department.

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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Additional information

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

(f) Calculate the **full** invoice value of the order.

[5]

[Total: 30]

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