Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

4508731959

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2016**

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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1 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.

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

Jing had the following assets and liabilities.

	At 30 April 2014	At 30 April 2015
	$	$
Equipment	?	?
Inventory	15 000	11 500
Trade receivables	3 750	2 250
Rent prepaid	500	400
Electricity owing	35	40
Trade payables	3 460	1 790

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.

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..... [2]

(ii) Calculate the purchases for the year ended 30 April 2015.

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(iii) Prepare Jing's income statement for the year ended 30 April 2015.

Jing
Income Statement for the year ended 30 April 2015

.... [11]

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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.

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..... [2]

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

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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.

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REQUIRED

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

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[8]

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

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[3]

[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:

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Non-current assets (at net book value)	
Premises	135 000
Machinery	84 000
Motor vehicles	36 000
	255 000
Current assets	
Inventory	56 000
Trade receivables	48 000
Bank	21 000
	125 000
Total assets	380 000
Capital and liabilities	
Capital accounts	
Colin	120 000
Darim	80 000
Emran	40 000
	240 000
Current accounts	
Colin	56 000
Darim	16 000
Emran	36 000
	108 000
Current liabilities	
Trade payables	32 000
Total capital and liabilities	380 000

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 $8000.

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

	$
Premises	180 000
Motor vehicles	25 000
Inventory	52 000
Trade receivables	46 000

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.

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REQUIRED

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

Revaluation account

[5]

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.

[4]

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

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

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[Total: 15]

3 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.

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

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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

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(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

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(iii) Calculate the profit or loss on disposal of the motor vehicle purchased on 1 June 2013.

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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.

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[Total: 15]

4 Bruna Limited is a manufacturing company. It operates three production departments and two service departments. The costs are allocated to each department as follows:

	Production departments			Service departments	
	Machining	Assembly	Finishing	Stores	Canteen
	$	$	$	$	$
Indirect labour	253 000	290 000	340 100	52 000	78 000
Other indirect overhead costs	205 000	90 000	225 000	88 000	92 000

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:

	Machining	Assembly	Finishing
Direct labour hours	15 000	60 000	40 000
Machine hours	45 000	30 000	25 000
Number of employees	5	6	9
Number of stores requisitions	6 300	4 500	7 200

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REQUIRED

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

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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:

	Machining	Assembly	Finishing
Direct labour hours	5	3	2
Machine time	2 hours	30 minutes	20 minutes

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.

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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.

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

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[Total: 30]

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