Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

2740051225

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2018**

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 **16** printed pages.

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CAMBRIDGE International Examinations

[Turn over

1 Cherie and Harry are in partnership.

REQUIRED

(a) Explain **three** disadvantages of operating as a partnership rather than being in business as a sole trader.

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Additional information

The following information was available for the partnership on 30 June 2017.

	$	
Bank overdraft	1 680	
Capital accounts		
Cherie	42 000	
Harry	28 000	
Current accounts balances at 1 July 2016		
Cherie	1 470	credit
Harry	2 430	debit
Drawings		
Cherie	18 300	
Harry	16 820	
Gross profit for the year	40 960	
Inventory at 30 June 2017	25 540	
Loan Account		
Cherie	8 000	
Non-current assets		
Cost	64 000	
Provision for depreciation	22 000	
Operating expenses	28 390	
Trade payables	1 170	

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The following information is also available.

1 Operating expenses included a payment for rent, $3450, for three months ended 31 August 2017.

2 Non-current assets are to be depreciated at 20% per annum using the reducing balance method.

3 Inventory at 30 June 2017 was overvalued by $380.

4 Cherie is to receive interest at 8% per annum on her loan to the partnership. No entries have been made to record the interest for the year ended 30 June 2017. The balance of her loan account has remained unchanged throughout the year.

REQUIRED

(b) Prepare the income statement for the year ended 30 June 2017. Start the statement with gross profit for the year of $40 960.

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Additional information

1 Interest on drawings has been calculated as follows:

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Cherie	310
Harry	240

2 The partners are to receive interest on their fixed capital account balances at 10% per annum.

3 Residual profits and losses are to be shared in proportion to their capital account balances.

REQUIRED

(c) Prepare the appropriation account for the year ended 30 June 2017.

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(d) Prepare the partners' current accounts for the year ended 30 June 2017.

Current Accounts

	Cherie $	Harry $		Cherie $	Harry $

[6]

Additional information

Cherie and Harry are concerned about some aspects of the business's efficiency and provide the following information.

Ratio	Year ended 30 June 2017	Year ended 30 June 2016	Industry Average
Non-current asset turnover	1.68 times	1.11 times	1.34 times
Trade payables turnover	28 days	33 days	31 days

REQUIRED

(e) Analyse the efficiency of the business using these ratios.

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Additional information

The partners are also concerned that the rate of inventory turnover has fallen below the industry average. Cherie has suggested that this could be improved by reducing inventory levels. Harry disagreed and suggested instead that an advertising campaign should be organised.

REQUIRED

(f) Advise which course of action the partners should take in order to improve the rate of inventory turnover. Justify your advice by discussing **both** of the suggested options.

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[Total: 30]

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2 M Limited has provided the following extract from the statement of financial position at 31 August 2016.

	$
Equity	
Capital and reserves	
Ordinary shares of $0.25 each	200 000
Share premium	80 000
Revaluation reserve	40 000
Retained earnings	37 500
	357 500

The following information is available.

1 On 1 January 2017 a rights issue was made on the basis of two ordinary shares for every five ordinary shares held at a price of $0.40 per share. The rights issue was fully subscribed.

2 On 30 June 2017 an interim dividend of $0.04 per share was paid on all shares in issue at that date.

3 At 31 August 2017 non-current assets were re-valued **downwards** by $48 000.

4 Profit for the year ended 31 August 2017 was $22 500.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 31 August 2017. A total column is **not** required.

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(b) State **two** reasons why capital reserves may be used before revenue reserves to fund a bonus issue of shares for a limited company.

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(c) (i) State **two** benefits to a limited company of making a rights issue.

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(ii) State **one** limitation to a limited company of making a rights issue.

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Additional information

Directors of M Limited are considering obtaining a long-term bank loan to raise additional capital.

REQUIRED

(d) Explain **two** advantages to the company of this course of action.

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[Total: 15]

3 Butler operates a small business.

He has provided the following information for non-current assets at 31 July 2016.

	$
Plant and machinery	
Cost	195 000
Provision for depreciation	68 250

During the year ended 31 July 2017, the following transactions took place.

1 A machine was sold for $25 000. There was a loss on disposal of $3000. The machine had been purchased on 28 May 2016.

2 A machine was purchased by cheque at a cost of $37 500. The following costs were also incurred for the new machine:

	$
Annual insurance	2825
Installation expenses	4500

Plant and machinery is depreciated using the reducing balance method at a rate of 20% per annum.

A full year's depreciation is charged in the year of purchase. No depreciation is charged in the year of disposal.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 31 July 2017. Dates are **not** required.

(i) Plant and machinery at cost

	$		$

[3]

(ii) Provision for depreciation on plant and machinery

	$		$

[3]

REQUIRED

(b) Explain why a business may use reducing balance method of depreciation for plant and machinery.

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Additional information

Butler also purchases loose tools for use in the business.

(c) Explain **two** accounting treatments for loose tools.

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(d) Explain **one** fundamental accounting concept relating to depreciation.

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[Total: 15]

4 SP Limited owns a hotel and a leisure centre.

The business is split into three working divisions: Accommodation, Leisure and Conferences.

The business also has one service centre: Support.

Labour, food and materials are allocated direct to the relevant division. The remaining overheads cannot be directly allocated.

The following budgeted information for the year ended 31 March 2018 is available:

	$
Rent and rates	86 000
Light and heat	48 000
Advertising	40 000
Equipment depreciation	60 000
Office costs	150 000

The following cost centre information is available.

	Accommodation	Leisure	Conferences	Support
Floor space (m^2)	25 000	4 000	10 000	1 000
Equipment value ($)	10 000	45 000	5 000	–
Number of employees	23	5	5	2
Kilowatt hours	7 000	4 000	3 000	1 000
Budgeted guest days	12 000	3 000	5 000	–

Advertising and office costs are apportioned on the basis of budgeted guest days.

REQUIRED

(a) Apportion the budgeted overheads to the four divisions using a suitable basis for each. Re-apportion the support costs to the three working divisions on the basis of guest days.

	Total $	Accommodation $	Leisure $	Conferences $	Support $
Labour cost	345 000	194 000	86 000	60 000	5 000
Food and materials	81 000	42 000	11 000	26 000	2 000
Rent and rates	86 000				
Light and heat	48 000				
Advertising	40 000				
Equipment depreciation	60 000				
Office costs	150 000				
Total apportioned overheads					
Reapportionment of Support					
Total					

[8]

(b) Calculate an overhead absorption rate to **two** decimal places, for **each** of the three working divisions based on budgeted guest days.

	Accommodation $	Leisure $	Conferences $
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Additional information
The actual results for the year ended 31 March 2018 were as follows:

	Total cost ($)	Guest days
Accommodation	522 000	13 200
Leisure	215 000	3 600
Conferences	196 000	5 800

REQUIRED

(c) Calculate the under-absorption or over-absorption of overheads for each division.

	Accommodation $	Leisure $	Conferences $
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	.....	.....	..... [6]

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Additional information

The company's policy is to charge customers a price to achieve a profit margin of 60%.

A business customer wishes to register five employees for a three day conference to include four days' accommodation, one day's leisure and three days' conference facilities for each employee.

REQUIRED

(d) Prepare a statement to calculate the price to be quoted to the customer.

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Additional information

The directors have been informed that a competitor has quoted a price $600 **more** for the same conference. They are considering revising their own pricing policy to increase accommodation prices by 20%.

REQUIRED

(e) Advise the directors whether or not they should increase their accommodation prices. Give reasons for your answer.

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Additional information

A company has recently employed a new assistant accountant with only limited knowledge of budgetary control procedures.

REQUIRED

(f) State **two** benefits to a company of operating a system of budgetary control.

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(g) State **two** limitations to a company of operating a system of budgetary control.

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[Total: 30]

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