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

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

0271924287

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 2013**

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.

This document consists of **10** printed pages and **2** blank pages.

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1 Joe Brown has a petrol station which has three departments, fuel, car wash and café. The following information is available for the year ended 31 December 2012.

	Fuel	Car wash	Cafe
	$	$	$
Revenue	735 600	30 650	61 300
Inventory at 1 January 2012	38 700	3 650	4 725
Purchases	454 320	7 240	9 620
Inventory at 31 December 2012	39 760	2 480	4 820
Direct wages	36 000	3 000	12 000
Non-current assets at cost	120 000	15 000	2 760
Accumulated depreciation	6 000	1 200	850

Additional information

Depreciation rate	10%	15%	15%
Depreciation method	Straight line	Reducing balance	Straight line
Floor area (square metres)	3 400	850	425

Other expenses for the year are:

	$
Rent of premises	46 288
Electricity	18 300
Administration charges	17 119
Other expenses	54 023

The expenses are split between the departments on the following basis:

Rent of premises in the ratio of floor area,
Electricity in the ratio 4:1:1 between fuel, car wash and café,
Administration charges in the ratio of wages,
Other expenses in the ratio of sales.

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REQUIRED

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(a) Prepare a departmental income statement for the year ended 31 December 2012.

[18]

(b) Joe is considering closing the car wash department due to its poor profitability. Advise Joe on the long term effects of this decision.

For Examiner's Use

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..... [6]

(c) Joe is looking for funds to improve the business. He is considering applying for either a bank loan or an overdraft. Explain **three** differences between a bank loan and an overdraft.

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..... [6]

[Total: 30]

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2 Alec and Jean were in partnership with capitals of $90 000 and $60 000 respectively.

On 1 June 2012 Alec had a debit balance on his current account of $2900 and Jean had a credit balance on her current account of $3100.

On 31 May 2013 Alec had a credit balance on his current account of $3000 and Jean had a credit balance on her current account of $340.

The partnership agreement stated:

1 Interest on capital is payable at 5% per annum.

2 Interest on drawings is charged at 8% per annum.

3 Annual partnership salaries were Alec $14 000 and Jean $12 000.

4 Profits and losses are to be shared in the ratio of capital invested.

Alec withdrew $20 000 and Jean $22 000 during the year.

REQUIRED

(a) Prepare the current account of **each** partner for the year ended 31 May 2013.

[10]

(b) Calculate the profit for the year ended 31 May 2013 before appropriation.

For Examiner's Use

[6]

(c) Explain the term goodwill.

[4]

On 1 June 2013 Alec and Jean agreed to admit Chris as a new partner. It was agreed that Chris would pay cash into the business for goodwill.

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Goodwill was valued at $36 000.
In addition Chris also introduced a motor vehicle valued at $12 150 and inventory of $5850.
The partners agreed that profits and losses are to be shared between Alec, Jean and Chris in the ratio of 3:2:1. No goodwill account is to be maintained on the books.

REQUIRED

(d) Prepare the capital accounts of Alec, Jean and Chris after Chris's admission to the partnership.

[10]

[Total: 30]

3 Kirkton manufactures a single product, the Kirk. The following information relates to one unit of Kirk:

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Per unit	$
Selling price	35.00
Variable production costs	13.50
Fixed production costs	3.50
Variable selling costs	1.50
Fixed selling costs	1.00

Kirkton produces and sells 800 Kirks a week.

REQUIRED

(a) (i) Calculate the weekly breakeven point in units.

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(ii) Calculate the weekly breakeven point in revenue.

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(iii) Calculate the margin of safety in revenue.

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..... [3]

(iv) Calculate the margin of safety as a percentage.

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Additional information:

Kirkton has four different machines that are used in the production of the Kirk. One of the machines has broken down, causing production to stop completely. The company will be without the machine for a period of four weeks and the owners have two alternatives.

1 Lease a machine at a cost of $2000 per week. Staff will need to be trained on the new machine. This will cost $3000. Production will reduce from the current level of 800 units each week to 500 units each week.
2 Buy in the Kirks from a competitor. Each Kirk will cost $26.25. The competitor is able to supply 800 units each week and will charge Kirkton $50.00 delivery for each 100 units.

REQUIRED

(b) Calculate the profit for the four weeks if Kirkton decide to lease a machine.

.... [9]

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(c) Calculate the profit for the four weeks if Kirkton decide to buy the Kirks from the competitor.

For Examiner's Use

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(d) State **two** advantages if Kirkton decides to buy the Kirks from the competitor rather than lease the machine.

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(e) State **two** disadvantages if Kirkton decides to buy the Kirks from the competitor rather than lease the machine.

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[Total: 30]

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