Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

4631185631

ACCOUNTING **9706/22**

Paper 2 Structured Questions **February/March 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 **19** printed pages and **1** blank page.

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CAMBRIDGE
International Examinations

[Turn over

1 Delph started trading on 1 July 2016.
For the year ended 30 June 2017 he provided the following information relating to his sales and purchases.

	$	
Bank payments to credit suppliers	39 826	
Cash purchases	692	
Credit purchases	74 779	
Credit purchases returns	6 813	
Discount received	1 764	
At 30 June 2017		
Sales ledger control account balance	21 555	Debit

REQUIRED

(a) Explain **two** benefits of using control accounts.

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Additional information

The following book-keeping errors have been discovered in the sales ledger:

1 The sales journal total for June 2017 was understated by $1470.

2 A customer's invoice for $2910 was entered in the sales journal as $2190.

3 Discounts allowed in June 2017 amounting to $435 were debited to the sales ledger control account.

4 A sales invoice for $1520 dated 30 June 2017 was omitted from the sales journal.

REQUIRED

(b) Prepare the amended sales ledger control account at 30 June 2017.

Delph
Amended sales ledger control account

	$		$
Balance b/d	21 555		

[5]

Additional information

At 30 June 2017 there was a debit balance on the purchases ledger account of $384.

REQUIRED

(c) Prepare the purchases ledger control account for the year ended 30 June 2017.

Delph
Purchases ledger control account

	$		$

[5]

Additional information

Delph has also provided the following information.

At 1 July 2016	$	
Capital introduced	10 500	
Loan from the bank (repayable 2021)	3 000	
During the year ended 30 June 2017		
Bank payments		
Motor vehicle	13 560	
Loan	500	
Drawings	12 625	
At 30 June 2017		
Inventory	3 700	Debit
Cash in hand	360	Debit
Rent	650	Debit
Bank	856	Credit
Wages	1 890	Credit

The motor vehicle is to be depreciated at 25% using the reducing balance method.

REQUIRED

(d) Prepare the statement of financial position at 30 June 2017.

Delph
Statement of financial position at 30 June 2017

[9]

Additional information

Delph has calculated the following ratios for the year ended 30 June 2017 for his own business and for his main competitor, Nadia.

	Delph	Nadia
Gross margin	26%	21%
Profit margin	9%	12%

REQUIRED

(e) Advise Delph whether or not his business is more profitable than Nadia's business. Justify your answer.

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.... [7]

[Total: 30]

PLEASE TURN OVER

2 The following is an extract from the statement of financial position of X Limited at 31 December 2016.

	$
Equity	
Share capital ($1 ordinary shares)	400 000
Share premium	20 000
Retained earnings	190 000
Total equity	610 000
Non-current liabilities	
8% debentures (2019–20)	80 000
Current liabilities	
Trade and other payables	20 000
Cash and cash equivalents	60 000
	80 000
Total liabilities	160 000
Total equity and liabilities	770 000

During the year ended 31 December 2017 the following transactions took place.

1 January 2017	Issue of 80 000 ordinary shares at $1.25 each.
30 June 2017	Rights issue of 3 ordinary shares for every 8 shares held on this date at an issue price of $1.30. This was fully subscribed.
30 September 2017	Bonus issue of 1 ordinary share for every 6 shares held on this date.

REQUIRED

(a) Prepare journal entries to record **each** of these transactions in the books of account. Dates and narratives are **not** required.

	Debit $	Credit $

[6]

(b) Prepare a statement to show the effect that the transactions had on the total equity.

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(c) State **three** uses of a share premium account.

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(d) State **three** reasons why a company may make a bonus issue of shares.

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[3]

[Total: 15]

3 Paul and Angela are in partnership sharing profits and losses in the ratio of 3:2 respectively. No separate current accounts are maintained.

On 1 May 2017, Rachael was admitted into the partnership.

(a) **(i)** State **two** advantages to existing partners of introducing a new partner.

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[2]

(ii) State **two** disadvantages to existing partners of introducing a new partner.

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[2]

A summarised statement of financial position at 30 April 2017 before the admission of Rachael is as follows:

	$
Non-current assets	225 000
Cash and cash equivalents	7 450
Other current assets	61 500
	293 950
Capital accounts:	
Paul	145 000
Angela	95 000
Current liabilities	53 950
	293 950

The following information is available:

1 Rachael paid $75 000 as capital into the partnership bank account.

2 Goodwill was valued at $50 000. No goodwill account was to be maintained in the books of account.

3 Non-current assets were revalued at $270 000.

4 Current assets (excluding cash and cash equivalents) were revalued at $40 500.

5 Current liabilities were revalued at $45 950.

6 Paul, Angela and Rachael will share profits and losses in the ratio 5:3:2 respectively.

REQUIRED

(b) Calculate the profit or loss from revaluation on 1 May 2017 when Rachael was admitted. Show how this is divided between the partners.

Profit or loss from revaluation ....

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Division between partners ....

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.... [2]

(c) Prepare, on the **next** page, the partners' capital accounts on 1 May 2017 after the admission of Rachael.

Capital Accounts

	Paul $	Angela $	Rachael $		Paul $	Angela $	Rachael $

[5]

(d) Explain why an adjustment for goodwill may be made when a new partner joins a business.

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(e) State **two** factors that may result in the creation of goodwill for a business.

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[Total: 15]

PLEASE TURN OVER

4 K Limited has two production departments. Department A produces bicycles and Department B produces scooters.

The company splits the costs of its maintenance department across the two production departments on the basis of stores requisitions.

REQUIRED

(a) (i) Name the accounting term which describes the splitting of a service department's costs based on stores requisitions.

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(ii) Explain how the cost of direct materials is charged to each production department.

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Additional information

K Limited provided the following budgeted information for January 2018.

	Department A	Department B
Production (units)	1 000	1 200
Total production costs	$	$
Direct materials	16 000	26 000
Direct labour	18 000	21 000
Indirect materials	4 000	3 000
Maintenance department costs	4 500	7 000
Factory rent	10 000	8 000
Depreciation of factory machinery	10 500	19 000
	63 000	84 000

The selling and distribution costs for January were budgeted to be $33 000 and the administrative expenses for January were budgeted to be $66 000. These were to be split between the two departments on the basis of units produced.

The budgeted selling prices were calculated using a mark-up of 25% on **total cost**.

REQUIRED

(b) State the bases which the company may have used to split **each** of the following costs between the two departments.

(i) factory rent

.... [1]

(ii) depreciation of factory machinery

.... [1]

(c) Calculate the inventory value of **one** bicycle produced by Department A

(i) using marginal costing

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.... [1]

(ii) using absorption costing.

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.... [1]

(d) **(i)** Calculate the budgeted profit for **one** bicycle.

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.... [4]

(ii) Calculate the budgeted profit for **one** scooter.

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.... [4]

Additional information

The sales director has suggested that the company should reduce production of bicycles by 500 a month and increase production of scooters by 500 a month.

REQUIRED

(e) Advise the directors whether or not they should proceed with this suggestion. Justify your answer using **both** financial and non-financial factors.

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Additional information

K Limited pays its production workers $9 an hour.

In January 2018 **actual** results for Department A showed the following.

hours worked	2100
total overheads	$76200

REQUIRED

(f) Calculate the overhead absorption rate per direct labour hour for Department A.

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(g) Calculate the under-absorption or over-absorption of overheads for Department A in January 2018.

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[Total: 30]

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