Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER			

6436091127

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 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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[Turn over

1 Tom and Jerry are in partnership. They do not have a formal partnership agreement.

The following information is available for the partnership for the year ended 30 November 2015:

	$	
Capital account balances at 30 November 2015		
Tom	90 000	
Jerry	54 000	
Current account balances at 1 December 2014		
Tom	18 000	Credit
Jerry	10 800	Debit
Drawings for the year		
Tom	8 000	
Jerry	2 800	
Profit from operations	12 600	
Loan from partner account		
Tom	24 000	

Tom made the loan to the partnership on 1 December 2014.

Profits had accrued evenly and drawings had been taken evenly throughout the year.

Additional information

Tom and Jerry prepared a formal partnership agreement to take effect from 1 September 2015. The terms of the agreement were:

1 Interest on capital was to be at a rate of 8% per annum.

2 Interest on drawings was to be at a rate of 3% per annum based on the annual drawings.

3 Tom was to be paid a salary of $16 216 per annum.

4 Profits and losses were to be shared in the ratio 3 : 2 respectively.

5 Loan interest was to be paid at a rate of 4% per annum.

REQUIRED

(a) Calculate the profit before appropriation for the nine months ended 31 August 2015 and the three months ended 30 November 2015.

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..... [3]

(b) Prepare the appropriation account for the nine months ended 31 August 2015 and the three months ended 30 November 2015.

Appropriation Account

	9 months $	3 months $
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[6]

(c) Prepare the current accounts for Tom and Jerry for the year ended 30 November 2015.

[8]

Additional information

The partnership is considering expansion and will need to purchase additional non-current assets at a cost of $60 000.

REQUIRED

(d) State the difference between capital and revenue expenditure.

[2]

(e) Identify and explain **one** accounting concept relating to depreciation.

[3]

(f) (i) Discuss **two** possible sources of finance which could be used to fund the purchase of the additional non-current assets.

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..... [6]

(ii) Recommend the most appropriate source of finance for the partnership. Justify your answer.

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..... [2]

[Total: 30]

2 The directors of Rebuild Limited are preparing the financial statements for the year ended 31 December 2015. The equity section of the statement of financial position at 31 December 2014 was as follows:

	$
Ordinary shares of $2 each, fully paid	240 000
Share premium	8 000
General reserve	40 000
Retained earnings	75 500
	363 500

During the year ended 31 December 2015, the following transactions took place:

March 1	Issued 10 000 ordinary shares at $2.10 each
March 31	Paid final dividend of 3% on all shares in issue at 31 December 2014
December 31	The directors revalued the company premises upwards by $20 000

The profit for the year ended 31 December 2015 was $47 100.

REQUIRED

(a) Prepare the statement of changes in equity for the year ended 31 December 2015.

[5]

Additional information

The directors of Rebuild Limited made a bonus issue of ordinary shares on 30 June 2016. The basis of the issue was one ordinary share for every twenty-five ordinary shares held. The company policy is to leave reserves in their most flexible form.

The profit for the 6 months ended 30 June 2016 was $25 000.

REQUIRED

(b) Prepare the statement of changes in equity for the 6 months ended 30 June 2016.

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(c) State **two** differences between ordinary shares and debentures.

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..... [4]

Additional information

The following item appears on the statement of financial position of Rebuild Limited at 31 December 2015:

6% debentures (2018–2020) $60 000

REQUIRED

(d) State the significance of (2018–2020).

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..... [1]

(e) State why an issue of debentures does **not** appear in the statement of changes in equity.

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..... [1]

[Total: 15]

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Question 3 is on the next page.

3 Contador, a sole trader, has provided the following extract from the trial balance for the year ended 31 March 2015. He does not maintain control accounts as part of his accounting records.

	$
Debit balances	112 375
Credit balances	120 835

REQUIRED

(a) (i) State the use of a suspense account.

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..... [1]

(ii) State **three** advantages to a business of maintaining a sales ledger control account.

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Additional information

The following errors have been identified:

1 The sales journal had been overcast by $26 350.

2 Motor expenses of $5270 had been posted to the motor vehicles account. Motor vehicles had been depreciated at 20% per annum.

3 Interest received of $8945 had been debited to both the bank account and the interest received account.

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REQUIRED

(b) Prepare journal entries to correct all of the errors identified. Narratives are **not** required.

[8]

(c) Assess the effect of these errors on the profit for the year.

[3]

[Total: 15]

4 Rodriguez Limited is a manufacturing business producing two products, Product X and Product Y. The following budgeted information is available for the next month:

	Product X	Product Y
Budgeted production (units)	5000	7000
Costs per unit:	$	$
Materials	12.50	10.75
Labour	18.40	27.60
Variable overheads	9.10	6.65
Fixed overheads	5.75	4.80

Additional information

1 Both products are sold with a 20% mark-up on marginal cost.

2 Direct labour is paid at a rate of $4.60 per hour.

REQUIRED

(a) Calculate for each product

(i) unit contribution in dollars,

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..... [2]

(ii) total direct labour hours required to meet budgeted production.

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Additional information

The business only has a total of 59 000 direct labour hours available.

REQUIRED

(b) Calculate the maximum profit that can be achieved from the total direct labour hours available.

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Additional information

The company has two possible options to enable it to achieve the budgeted production.

Option 1 Pay existing staff overtime. This will be paid at a rate of $5.75 per hour.

Option 2 Buy in the required products from an external supplier at a cost of $50 per unit.

REQUIRED

(c) (i) Evaluate the options available to the company to achieve the budgeted production.

Support your answers with calculations.

Option 1 .....

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Option 2 .....

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(ii) Recommend which option the company should choose. Justify your answer.

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(d) (i) State **three** advantages of budgetary control.

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(ii) State **three** disadvantages of budgetary control.

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2 .....

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..... [3]

[Total: 30]

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