Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

9704464425

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 2017**

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 any diagrams or graphs or 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 **13** printed pages and **3** blank pages.

1 Ross, a sole trader, owns a business selling computer equipment. He prepared the following income statement for the year ended 31 March 2017, which contained errors.

Ross
Income Statement for the year ended 31 March 2017

	$	$
Revenue		96520
Add: Returns outwards		440
		96960
Cost of sales		
Inventory at 31 March 2017	23400	
Purchases	38950	
Carriage outwards	1090	
	63440	
Inventory at 1 April 2016	(21640)	41800
Gross profit		55160
Less expenses:		
Property rental paid	16240	
Returns inwards	1240	
Drawings	8600	
Heating and lighting	1940	
Travel expenses	2060	
General expenses	6690	
Shop fittings – accumulated depreciation at 31 March 2017	3320	
		40090
Profit for the year		15070

Additional information

The following notes also need to be taken into account when correcting the income statement.

1 Revenue includes goods sent on a sale or return basis to a customer who has not yet accepted the goods. The goods cost $2500 and had been invoiced for $4000.

2 Depreciation on shop fittings for the year ended 31 March 2017, $1490, had been entered in the books of account.

3 A prepayment of $1160 for property rental paid at 31 March 2017 had been incorrectly entered in the books of account as an accrual.

4 A customer owing Ross $1250 has been declared bankrupt. This debt should have been written off in these accounts, but no entry has yet been made.

REQUIRED

(a) Prepare the **corrected** income statement for the year ended 31 March 2017.

Ross
Income Statement for the year ended 31 March 2017

[13]

Additional information

Ross provided the following information about his assets and liabilities at 31 March 2017:

	$
Accruals	1960
Bank loan	8580
Bank overdraft	2610
Capital at 1 April 2016	10950
Shop fittings – cost at 31 March 2017	11930
Prepayments	2080
Trade payables	6440
Trade receivables	12870

No adjustment had been made to any of these balances in respect of errors discovered in the income statement or notes 1 to 4 on page 2.

Ross introduced capital of $3000 into the business bank account on 31 March 2017. No entries for this have yet been made in the books of account.

One half of the bank loan is repayable in the year ending 31 March 2018. The remainder is due for repayment after that date.

REQUIRED

(b) Prepare the statement of financial position at 31 March 2017 taking account of all relevant information and information from part **(a)**.

Ross
Statement of Financial Position at 31 March 2017

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[13]

Additional information

At present Ross does not make any provision for doubtful debts.

REQUIRED

(c) Advise Ross whether or not he should create a provision for doubtful debts. Justify your answer.

[4]

[Total: 30]

2 Trott provided the following information for the year ended 30 April 2017:

	$
Sales ledger control account balance	93 185
Sales ledger balances	78 370

The following errors were identified:

1 The sales journal total had been overcast by $30 420.

2 A dishonoured cheque for $9745 had not been entered in the customer's account.

3 Interest charged on an overdue amount, $720, had been completely omitted from the books of account.

4 The sales returns journal had been overcast by $4560.

5 Discount allowed of $1520 had been completely omitted from the books of account.

6 Receipts from credit customers entered in the cash book had been overcast by $18 965.

7 An irrecoverable debt of $1825 had been written off in the sales ledger control account but no entry had been made in the customer's account.

REQUIRED

(a) Complete the following tables to update the sales ledger control account balance and the sales ledger balances at 30 April 2017.

Sales ledger control account

Description	Add ($)	Less ($)	Total ($)
Opening balance			93 185

Sales ledger balances

Description	Add ($)	Less ($)	Total ($)
Opening balance			78 370

[11]

(b) State **four** advantages to a business of preparing a sales ledger control account.

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[4]

[Total: 15]

3 K Limited has been trading for many years and prepares financial statements annually to 30 April. It had the following balances at 1 May 2016:

	$	$
Plant and equipment		
at cost	84 695	
provision for depreciation		32 855

On 1 February 2017, the company bought new equipment, $12 785, and the cost of installing this equipment was $1595.

On 31 December 2016 the company sold a motor vehicle which had cost $14 850 on 1 August 2015. The proceeds of $8900 were paid by cheque.

The company's depreciation policy is as follows:

Plant and equipment	20% on cost per annum
Motor vehicles	25% reducing balance per annum

Depreciation is charged on a month-by-month basis.

REQUIRED

(a) (i) Calculate the depreciation charge for plant and equipment for the year ended 30 April 2017. Workings **must** be shown.

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(ii) Prepare the motor vehicle disposal account for the year ended 30 April 2017. Workings **must** be shown.

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(b) Explain **two** accounting concepts which are being applied when depreciation is provided.

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Additional information

K Limited is considering purchasing additional plant and equipment costing $30 000. This could be financed by **one** of the following:

Bank loan
Issue of ordinary shares

REQUIRED

(c) Advise the directors which method of finance they should choose. Justify your answer.

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[Total: 15]

4 J Limited manufactures a single product, a leather suitcase. The following forecast information is available.

Costs **per unit**	$
Direct materials	15
Direct labour	8
Variable production overheads	2

Fixed costs **per month**	$
Salaries	1450
Rent and rates	650
Advertising	1000
Other fixed costs	1100

The directors calculate the selling price by adding a mark-up of 80% on to the variable costs.

The company has orders to supply 240 suitcases per month. This involves working at 75% capacity.

REQUIRED

(a) State **two** benefits and **two** limitations of break-even analysis.

Benefits

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Limitations

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(b) Calculate the break-even point in **units** per month.

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(c) Calculate the **monthly** margin of safety

(i) in units; ....

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(ii) in revenue. ....

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(d) Calculate the **maximum** monthly profit if the company is working at 100% capacity.

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Additional information

The directors have been approached by Bart, a retailer, who requires a regular monthly order of 150 suitcases. Bart is offering to pay $42 per suitcase.

The directors are aware that this order will take production over the current capacity and the following would result:

1 All suitcases over the current maximum production capacity would incur an additional $2 per unit direct labour cost to allow for overtime payments.

2 Additional storage facilities would have to be found at a monthly rental of $200.

The directors are also concerned that the target annual profit set by them of $30 000 is not being achieved.

They have decided to increase by 10% the selling price of all production **except** the new contract. They also plan to increase the advertising expenditure by $500 per month and are confident that monthly sales to existing customers will remain at 240 suitcases per month.

REQUIRED

(e) Prepare a statement, in marginal cost format, to show J Limited's maximum forecast **total** profit per **month** if the directors accept the new contract.

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(f) Advise the directors whether or not they should accept the new contract with Bart and increase the selling price. Justify your answer by explaining **two** benefits and **two** limitations.

Advice

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Benefits

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Limitations

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[7]

(g) State **three** financial benefits of a system of budgetary control.

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[Total: 30]

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