

Cambridge International Examinations Cambridge International Advanced Subsidiary and Advanced Level

	CANDIDATE NAME		
* 4 6	CENTRE NUMBER	CANDIDATE NUMBER	
	ACCOUNTING		9706/22
3 1	Paper 2 Structu	ured Questions	February/March 2018
1 8 5 6 3 1		wer on the Question Paper. laterials are required.	1 hour 30 minutes
* 🚃	READ THESE I	NSTRUCTIONS 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.

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	39826	
Cash purchases	692	
Credit purchases	74779	
Credit purchases returns	6813	
Discount received	1764	
At 30 June 2017		
Sales ledger control account balance	21 555 Debit	

REQUIRED

(a) Explain two benefits of using control accounts.

1	 	
 2		
2		
••••		

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.

	\$	\$
Balance b/d	21 555	

Delph Amended sales ledger control account

[5]

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

Additional information

Delph has also provided the following information.

At 1 July 2016 Capital introduced Loan from the bank (repayable 2021)	\$ 10500 3000	
During the year ended 30 June 2017		
Bank payments Motor vehicle Loan Drawings	13560 500 12625	
At 30 June 2017 Inventory Cash in hand Rent Bank Wages	3700 360 650 856 1890	Debit Debit Debit Credit Credit

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

[5]

REQUIRED

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

Delph Statement of financial position at 30 June 2017

[9]

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.

PLEASE TURN OVER

7

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

	Ф
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.

[3]

(c)	State three uses of a share premium account.
	1
	2
	<u> </u>
	3
	[3]
(d)	State three reasons why a company may make a bonus issue of shares.
	1
	2
	2
	3
	[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.

1 ______2 _____

[2]

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

1	
2	

	\$
Non-current assets	225000
Cash and cash equivalents	7450
Other current assets	<u>61 500</u>
	<u>293 950</u>
Capital accounts:	
Paul	145000
Angela	95 000
Current liabilities	<u>53 950</u>
	<u>293 950</u>

The following information is available:

1 Rachael paid \$75000 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 \$40500.
- 5 Current liabilities were revalued at \$45950.
- 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
Division between partners
[2]

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

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

[5]

(d) Explain why an adjustment for goodwill may be made when a new partner joins a business.
[2]
(e) State two factors that may result in the creation of goodwill for a business.
1
2
[2]

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.

[1]

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

[2]

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	16000	26000
Direct labour	18000	21000
Indirect materials	4000	3000
Maintenance department costs	4 500	7 000
Factory rent	10000	8 0 0 0
Depreciation of factory machinery	<u>10 500</u>	<u>19000</u>
	63000	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 using marginal costing (i)[1] (ii) using absorption costing. _____ [1] (d) (i) Calculate the budgeted profit for **one** bicycle.[4] (ii) Calculate the budgeted profit for one scooter.[4]

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.

[7]

K Limited pays its production workers \$9 an hour.

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

hours worked	2 100
total overheads	\$76 200

REQUIRED

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

[3]

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

[5] [Total: 30]

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