



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

CANDIDATE  
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**ACCOUNTING**

**9706/22**

Paper 2 Structured Questions

**October/November 2011**

**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.

| For Examiner's Use |  |
|--------------------|--|
| 1                  |  |
| 2                  |  |
| 3                  |  |
| <b>Total</b>       |  |

This document consists of **15** printed pages and **1** blank page.



- 1 Kirsty, a sole trader, prepared the following trial balance at 30 April 2011.

For  
Examiner's  
Use

|  | \$             | \$             |
|--|----------------|----------------|
| Rent   | 4 000          |                |
| General expenses                             | 6 000          |                |
| Insurance                                    | 3 300          |                |
| Salaries                                     | 14 000         |                |
| Electricity                                  | 2 000          |                |
| Capital                                      |                | 44 000         |
| Motor expenses                               | 4 900          |                |
| Bad debts                                    | 200            |                |
| Drawings                                     | 6 000          |                |
| Trade receivables                            | 6 200          |                |
| Trade payables                               |                | 3 800          |
| Cash and cash equivalents                    | 2 600          |                |
| Inventory                                    | 3 600          |                |
| 10% Loan                                     |                | 15 000         |
| Loan interest                                | 1 250          |                |
| Carriage outwards                            | 700            |                |
| Commission received                          |                | 730            |
| Ordinary goods purchased                     | 56 000         |                |
| Revenue                                      |                | 108 000        |
| Purchases returns                            |                | 2 500          |
| Sales returns                                | 4 800          |                |
| Discounts allowed                            | 600            |                |
| Discounts received                           |                | 400            |
| Provision for doubtful debts                 |                | 520            |
| Equipment                                    | 48 000         |                |
| Provision for depreciation of equipment      |                | 14 400         |
| Motor vehicles                               | 36 000         |                |
| Provision for depreciation of motor vehicles |                | 10 800         |
|  | <u>200 150</u> | <u>200 150</u> |

The following information is also available:

- 1 The closing inventory at 30 April 2011 was valued at \$4200.
- 2 Included in the general expenses is an item of equipment purchased during the year for \$1200. This item has not yet been included in the equipment account.
- 3 A cheque for \$800 received from a credit customer has not yet been entered in the accounts.
- 4 At 30 April 2011:
  - loan interest owing amounted to \$250
  - electricity owing was \$380
  - insurance was prepaid by \$460
- 5 During the year Kirsty had withdrawn, for her personal use, goods costing \$1800. This has not been recorded in the accounts.
- 6 Commission receivable of \$150 was owing to Kirsty at 30 April 2011.
- 7 The provision for doubtful debts is to be provided for a specific debt of \$200, plus 2% of the remaining debtors.









During May 2011 Kirsty purchased new machinery with the following pricing details.

For  
Examiner's  
Use

|                    |        |
|--------------------|--------|
|                    | \$     |
| List price         | 60 000 |
| 10% trade discount | 6 000  |
| Delivery costs     | 1 000  |
| Installation costs | 2 000  |

The machinery maintenance costs are estimated to be \$5000 per annum.

Kirsty plans to keep the machinery for 5 years and then dispose of it for an estimated residual value of \$4000.

**REQUIRED**

(c) Calculate the cost figure which should be used as the basis for depreciation.

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..... [2]

(d) Calculate the annual depreciation charge using the straight line method.

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..... [2]

(e) Prepare the Disposal of Machinery Account if the machinery is sold for \$12 000 at the end of **four** years.

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..... [6]

**[Total: 30]**

## 2 Answer Section A and Section B.

**A** The sales ledger control account of Dream Beds for the year ended 31 December 2010 is shown below.

|        |                            |                |        |                  |                |
|--------|----------------------------|----------------|--------|------------------|----------------|
|        |                            | \$             |        |                  | \$             |
| Jan 1  | Balance b/d                | 43 900         | Dec 31 | Sales returns    | 28 510         |
| Dec 31 | Sales                      | 522 650        |        | Bank             | 436 300        |
|        | Bank (dishonoured cheques) | 2 200          |        | Discount allowed | 28 800         |
|        |                            |                |        | Bad Debts        | 8 400          |
|        |                            |                |        | PLCA             | 3 210          |
|        |                            |                |        | Balance c/d      | 63 530         |
|        |                            | <u>568 750</u> |        |                  | <u>568 750</u> |

The schedule of trade receivables (debtors) extracted from the sales ledger at 31 December 2010 totalled \$61 140.

The following errors were subsequently discovered:

- 1 A sale of \$750 had been entered in John's account in the sales ledger as \$570. The correct entry had been made in the sales journal.
- 2 An entry of \$850 was correctly entered in Samera's account in the sales ledger, closing the account owing to Samera's bankruptcy. No other entry had been made.
- 3 A sum of \$120 discount allowed had been debited to Beach's account in the sales ledger. The correct entry had been made in the cash book.
- 4 At 31 December 2010 the balances in Richard's accounts were:

|                  |      |        |
|------------------|------|--------|
|                  | \$   |        |
| Purchases Ledger | 2680 | Credit |
| Sales Ledger     | 1980 | Debit  |

It was decided to set off Richard's balance in the sales ledger against the balance in the purchases ledger. No entries had been made.

- 5 Goods to the value of \$800 were sold to Claire in June 2010, and the account had not yet been paid. Interest charges of \$30 are to be applied on the overdue account, but no entries for this had yet been recorded.

In addition a provision for doubtful debts of 10% on the new outstanding balance is to be created.

- 6 Dream Beds had sent goods with a selling price of \$400 on a sale or return basis to Majit. Majit had not yet signified any intention to purchase the goods. Dream Beds had considered the goods as sold, and made the relevant accounting entries.
- 7 A page in the sales returns journal in October 2010 had been undercast by \$1600. No correction had yet been made.





(c) Explain **two** advantages of using a sales ledger control account.

- (i) .....
- .....
- .....
- (ii) .....
- .....
- ..... [4]

**B** S Turner owns a food wholesale business. The following amounts were extracted from books of account at 31 December 2010.

|                            |           |
|----------------------------|-----------|
|                            | \$        |
| Inventory – 1 January      | 45 000    |
| Inventory – 31 December    | 65 000    |
| Cost of sales              | 880 000   |
| Business expenses          | 130 000   |
| Trade payables             | 100 000   |
| Trade receivables          | 150 000   |
| Bank overdraft             | 50 000    |
| Capital – 31 December 2010 | 1 125 000 |

The mark up on goods is 25%.

**REQUIRED**

(a) Calculate the profit for the year (net profit) ended 31 December 2010.

- .....
- .....
- .....
- ..... [2]

(b) Calculate the following ratios, giving your answer to **one** decimal place.

(i) Return on capital employed

- .....
- .....
- .....
- .....
- ..... [2]

(ii) Inventory turnover (as a number of times)

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..... [2]

(iii) Liquid (acid test) ratio.

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..... [2]

S Turner is considering expanding her business by purchasing another food wholesale business.

She has obtained the following information on two possible business purchases.

|                            | <b>Paradis<br/>Foods</b> | <b>Jones<br/>Wholesalers</b> |
|----------------------------|--------------------------|------------------------------|
| Return on capital employed | 15%                      | 6%                           |
| Current ratio              | 3.4:1                    | 1.8:1                        |
| Liquid (acid test) ratio   | 0.5:1                    | 1.4:1                        |

**REQUIRED**

(c) Advise which business, if any, she should purchase on the basis of all of the information provided. Justify your answer.

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..... [4]

**[Total: 30]**

3 Mary Smith's sales and costing information for the year ended 31 December 2010 included the following:

|                          |         |
|--------------------------|---------|
| Sales (units)            | 25 000  |
| Selling price per unit   | \$35    |
|                          |         |
| Total costs for the year | \$      |
| Direct materials         | 200 000 |
| Direct labour            | 250 000 |
| Variable overheads       | 50 000  |
| Fixed costs              | 180 000 |

**REQUIRED**

(a) Calculate the following for the year ended 31 December 2010.

(i) Contribution per unit

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..... [5]

(ii) Break even output level in units

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..... [3]

(iii) The margin of safety expressed both in units **and** as a percentage of sales.

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[4]

(b) State **three** fixed costs a business typically incurs.

(i) .....  
.....

[1]

(ii) .....  
.....

[1]

(iii) .....  
.....

[1]

(c) Explain what is meant by the term 'stepped costs'.

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[2]

During 2011 sales (in units) were expected to remain at the 2010 level of 25 000 units.

Mary Smith is in the process of compiling her 2012 budget. Research has indicated a potential increase in sales (in units) of 60% compared with the 2010 level. The company is assuming that selling price **and** all variable costs per unit in 2012 will remain at the 2010 level.

The current production level is 32 000 units per annum.

To increase production further would require:

capital investment of \$3 000 000;

an increase in fixed costs of \$195 000 per annum.

**REQUIRED**

(d) Prepare **and** label a break-even chart for 2012, taking into account all of the potential amendments.

Use the space below for your workings.

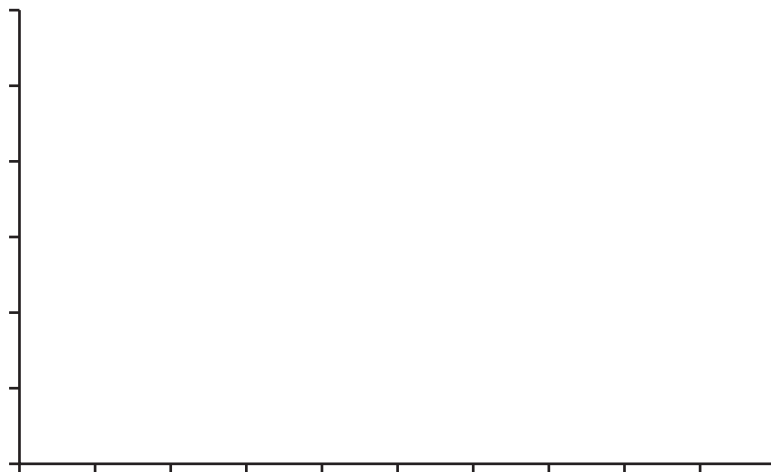
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[6]



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