## Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

## CANDIDATE

 NAME $\square$
## CENTRE NUMBER

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CANDIDATE NUMBER


## ACCOUNTING

9706/22
Paper 2 Structured Questions
May/June 2015
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.

1 Khalid owns a wholesale business selling electrical goods. He does not keep proper books of account, but is able to provide the following information.

Balances at 1 January 2014
Motor vehicle at cost 38400
Motor vehicle provision for depreciation 12600
Fixtures and fittings at cost 41940
Fixtures and fittings provision for depreciation 22680
Trade receivables 26610
Trade payables 19920
Inventory 33500
Prepayment of two months' property rental 3750
General expenses accrued 410
Cash in hand 360
Summary of bank account for the year ended 31 December 2014

|  | $\begin{gathered} \mathrm{Dr} \\ \$ \end{gathered}$ |  | Cr $\$$ |
| :---: | :---: | :---: | :---: |
| Balance at 1 January 2014 | 4110 | Payments to credit suppliers | 134750 |
| Receipts from credit customers | 200270 | Drawings | 22185 |
| Cash sales banked | 9675 | Property rental | 20625 |
| Balance at 31 December 2014 | 11295 | General expenses | 6650 |
|  |  | Purchase of motor vehicle | 10100 |
|  |  | Wages and salaries | 26150 |
|  |  | Motor expenses | 4890 |
|  | $\underline{225350}$ |  | $\underline{225350}$ |

## REQUIRED

(a) Calculate Khalid's opening capital at 1 January 2014.
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## Additional information

1 For the year ended 31 December 2014:
Credit sales $\$ 193400$
Cash sales $\$ 15180$
2 Trade payables at 31 December 2014 were $\$ 21590$.
3 All sales are made at $30 \%$ gross profit margin.

## REQUIRED

(b) Calculate the following for the year ended 31 December 2014
(i) Sales revenue
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(ii) Purchases
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(c) Calculate the value of closing inventory at 31 December 2014.
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## Additional information

Before banking his receipts from cash sales, Khalid took $\$ 400$ per month for his personal drawings. The only other cash payments during the year were for motor expenses.

Cash in hand at 31 December 2014 was $\$ 460$.

## REQUIRED

(d) Prepare the cash account for the year ended 31 December 2014 to identify the cash payment made for motor expenses.
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## Additional information

1 Khalid allowed a total of $\$ 914$ discount to credit customers.
2 Motor vehicles are depreciated at $25 \%$ per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase, but none in the year of sale.

3 During the year, a motor vehicle that had cost $\$ 16000$ on 1 July 2012 was traded in for $\$ 8200$. The balance of the purchase price for the new vehicle was paid by cheque.

4 Fixtures and fittings are depreciated at $15 \%$ per annum using the reducing balance method. There were no additions or sales of fixtures and fittings during the year.

5 There was no accrual for general expenses at 31 December 2014.
6 Prepaid rent at 31 December 2014 was $\$ 1875$.

## REQUIRED

(e) Prepare Khalid's income statement for the year ended 31 December 2014.
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2 Kim, a sole trader, provided the following statement.
Statement of financial position at 30 September 2014

|  | \$ |
| :---: | :---: |
| Non-current assets |  |
| Motor vehicles | 100000 |
| Equipment | 80000 |
| Fixtures and fittings | 172000 |
|  | $\underline{352000}$ |
| Current assets |  |
| Inventory | 105000 |
| Trade receivables | 343000 |
|  | 448000 |
| Total assets | 800000 |
| Capital and liabilities |  |
| Opening capital | 600000 |
| Add profit for the year | 80000 |
|  | 680000 |
| Less Drawings | 88000 |
|  | $\underline{592000}$ |
| Current liabilities |  |
| Trade payables | 192000 |
| Bank overdraft | 16000 |
|  | $\underline{208000}$ |
| Total capital and liabilities | 800000 |

Additional information
1 On 1 October 2014 Kim admitted Chan as a partner.
2 Goodwill was valued at $\$ 120000$ but will not remain in the books of the partnership.
3 The profit sharing ratio was agreed at Kim 60\% and Chan 40\%.
4 Chan agreed to pay a cheque of $\$ 160000$ to the partnership. In addition he introduced equipment valued at $\$ 325000$ and inventory valued at $\$ 26000$.

## REQUIRED

(a) Prepare the capital accounts of Kim and Chan at 1 October 2014.
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(b) Prepare a statement of financial position for the partnership at 1 October 2014.
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(c) State three advantages to Kim of forming a partnership.
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## Additional information

Kim has provided for doubtful debts at a rate of $2 \%$.
Chan would like to change the existing rate of the provision to $5 \%$.
REQUIRED
(d) Explain why this change might be necessary.
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(e) Calculate the difference in the provision for doubtful debts if the existing rate had changed to $5 \%$.
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(f) State how this change would affect the partnership's income statement and statement of financial position.
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3 Kapoor Limited is a company which has two production departments, machining and finishing, and two service departments, maintenance and canteen. The following information is available.

The forecast overheads for the year ending 31 March 2015 were as follows.

|  | $\$$ |
| :--- | ---: |
| Power | 32000 |
| Machine depreciation | 28400 |
| Supervision | 28000 |
| Rent and rates | 26000 |
| Buildings insurance | 11000 |
| Light and heat | 9000 |

The following additional information is available.

|  | Machining | Finishing | Maintenance | Canteen |
| :--- | ---: | ---: | ---: | ---: |
| Number of employees | 16 | 24 | 8 | - |
| Floor area (square metres) | 12000 | 14000 | 3000 | 1000 |
| Net book value of machinery (\$) | 140000 | 25000 | 13000 | 2000 |
| Kilowatt hours | 6000 | 3000 | 2000 | 1000 |
| Maintenance department hours | $66 \%$ | $34 \%$ | - | - |

## REQUIRED

(a) Apportion the forecast overheads to the four departments and re-apportion the service departments' costs to production departments using a suitable basis for each.

|  | Basis | Total <br> $\$$ | Machining <br> $\$$ | Finishing <br> $\$$ | Maintenance <br> $\$$ | Canteen <br> $\$$ |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| Power |  |  |  |  |  |  |
| Machine <br> depreciation |  |  |  |  |  |  |
| Supervision |  |  |  |  |  |  |
| Rent and rates |  |  |  |  |  |  |
| Buildings insurance |  |  |  |  |  |  |
| Light and heat |  |  |  |  |  |  |
| Total apportioned <br> overheads |  |  |  |  |  |  |
| Reapportionment <br> of canteen |  |  |  |  |  |  |
| Subtotal |  |  |  |  |  |  |
| Reapportionment <br> of maintenance |  |  |  |  |  |  |
| Total |  |  |  |  |  |  |

## Additional information

The following information for the year is also provided.

|  | Machining | Finishing | Maintenance | Canteen |
| :--- | :---: | :---: | :---: | :---: |
| Budgeted machine hours | 58000 | 8000 | 4000 | - |
| Budgeted direct labour hours | 26000 | 42000 | 12000 | - |

## REQUIRED

(b) Calculate an appropriate overhead absorption rate for each production department to two decimal places.
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## Additional information

The actual results for the year ended 30 March 2015 were as follows.

|  | Machining | Finishing |
| :--- | ---: | ---: |
| Factory overheads | $\$ 82436$ | $\$ 56980$ |
| Direct labour hours | 27410 | 41295 |
| Direct machine hours | 56120 | 7310 |

## REQUIRED

(c) Calculate the under absorption or over absorption of overheads for each production department.
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(d) State two reasons for the under absorption or over absorption of overheads, calculated in part (c), for each department.

Machining reason 1 $\qquad$
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Machining reason 2
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Finishing reason 1
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Finishing reason 2 $\qquad$
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(e) Explain why estimated figures are used to calculate overhead absorption rates.
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## Additional information

Kapoor Limited produces a single component. The directors have been asked to prepare a quotation for a customer who requires 150 units of the component. Kapoor Limited requires $45 \%$ gross profit on mark-up on this order.

## Product information

Direct materials
Direct labour hours - machining
Direct labour hours - finishing
Machine hours - machining
Machine hours - finishing
$\$ 9.40$
45 minutes at $\$ 8.40$ per hour
20 minutes at $\$ 6.60$ per hour
30 minutes
10 minutes

## REQUIRED

(f) Calculate the full invoice value of the order.
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