



**Cambridge International Examinations**  
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE  
NAME

CENTRE  
NUMBER

|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  |  |
|--|--|--|--|--|

CANDIDATE  
NUMBER

|  |  |  |  |
|--|--|--|--|
|  |  |  |  |
|--|--|--|--|

\* 2 1 4 9 8 9 6 9 9 8 \*

**ACCOUNTING**

**9706/22**

Paper 2 Structured Questions

**May/June 2014**

**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 **12** printed pages.

- 1 Charles Altas does not keep books on a double-entry basis. He provided the following information.

Charles Altas  
Statement of Financial Position at 1 January 2013

|                           | \$           | \$             |
|---------------------------|--------------|----------------|
| Non-current assets        |              | 60 000         |
| Current assets            |              |                |
| Inventory                 | 29 600       |                |
| Trade receivables         | 33 000       |                |
| Cash and cash equivalents | <u>9 800</u> | <u>72 400</u>  |
| Total assets              |              | <u>132 400</u> |
| Equity and liabilities    |              |                |
| Capital at 1 January 2013 |              | 108 600        |
| Current liabilities       |              |                |
| Trade payables            | 18 200       |                |
| Other payables            | <u>5 600</u> | <u>23 800</u>  |
|                           |              | <u>132 400</u> |

Additional information for the year ended 31 December 2013

|  | \$      |
|--|---------|
| Cheques received from credit customers | 166 660 |
| Discounts allowed                      | 8 600   |
| Cash takings banked                    | 30 000  |
| Cheques paid to credit suppliers       | 155 690 |
| Discounts received                     | 8 200   |
| Expenses paid                          | 26 100  |
| Purchase of non-current assets         | 20 000  |
| Returns inwards                        | 4 200   |
| Returns outwards                       | 4 500   |
| Bad debts                              | 2 200   |

All cash takings were banked except for \$29 000. Of this \$10 000 was used to pay wages and the remainder kept for personal use. All other payments were made by cheque.

On 31 December 2013 Charles Altas had the following assets and liabilities:

|                           | \$     |
|---------------------------|--------|
| Non-current assets        | 74 000 |
| Trade receivables         | 20 832 |
| Trade payables            | 14 930 |
| Inventory                 | 35 200 |
| Other receivables         | 1 720  |
| Cash and cash equivalents | 4 670  |

No non-current assets were disposed of during 2013.  
All purchases were made on credit.



(c) Calculate the total expenses for the year ended 31 December 2013.

.....

.....

.....

.....

.....

.....

.....

.....

.....

..... [4]



- 2 SMC Limited is a wholesale business. An extract from their statement of financial position at 31 December 2012 showed:

| Non-current Assets    |         |        |         |
|-----------------------|---------|--------|---------|
|                       | \$      | \$     | \$      |
| Fittings and fixtures | 240 000 | 96 000 | 144 000 |
| Equipment             | 60 000  | 18 000 | 42 000  |

SMC Ltd has a policy to depreciate fittings and fixtures at 20% per annum on cost (straight line method) and equipment at 10% per annum on cost. Depreciation is charged for each month of ownership.

No allowance is made for any residual value.

All fittings and fixtures held by the company at the end of the financial year had been purchased within the previous four years. All equipment had been purchased within the previous seven years.

During the year ended 31 December 2013 the following transactions took place:

#### Purchases

- 1 January 2013 fittings and fixtures \$16 000, purchased on credit from Walker.
- 1 July 2013 equipment \$14 000, purchased on credit from Arcadia Limited.

#### Disposals

- 31 March 2013 equipment (original cost \$8 000, bought on 1 January 2010) was sold for \$6 000.

Disposal proceeds were received in full by cheque.

**REQUIRED**

(a) Prepare journal entries to record the following (narratives are not required).

(i) The purchase of the equipment.

| Account | Debit<br>\$ | Credit<br>\$ |
|---------|-------------|--------------|
|         |             |              |
|         |             |              |
|         |             |              |

[2]

(ii) The depreciation charge for fittings and fixtures for the year ended 31 December 2013.

| Account | Debit<br>\$ | Credit<br>\$ |
|---------|-------------|--------------|
|         |             |              |
|         |             |              |
|         |             |              |

[4]

(iii) The depreciation charge for equipment for the year ended 31 December 2013.

| Account | Debit<br>\$ | Credit<br>\$ |
|---------|-------------|--------------|
|         |             |              |
|         |             |              |
|         |             |              |

[4]

(iv) The disposal of equipment.

| Account | Debit<br>\$ | Credit<br>\$ |
|---------|-------------|--------------|
|         |             |              |
|         |             |              |
|         |             |              |
|         |             |              |
|         |             |              |
|         |             |              |
|         |             |              |
|         |             |              |

[8]

(b) (i) Explain the purposes of the journal.

.....

.....

.....

.....

.....

.....

..... [2]

(ii) State two examples of transactions which would be recorded in the journal, other than the purchase of non-current assets on credit.

1 .....

2 ..... [2]



**Additional information**

SMC is considering changing the depreciation method for equipment to reducing balance method.

**REQUIRED**

(c) (i) State an accounting concept which is applied when depreciation is provided.

..... [1]

(ii) Explain the possible reasons why the business is considering this change.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [7]

**[Total 30]**

3 Sparkle produces one product, the Esprit. During the year ended 31 December 2013, the company produced 15 000 units of Esprit and incurred the following total costs:

|                              |        |
|------------------------------|--------|
|                              | \$     |
| Direct materials             | 90 000 |
| Direct labour                | 67 500 |
| Variable production overhead | 45 000 |
| Fixed production overhead    | 60 000 |
| Other fixed overheads        | 25 000 |

Each Esprit is sold for \$26.00

There was no opening inventory of finished goods at 1 January 2013, and only 13 000 units were sold in the year ended 31 December 2013.

**REQUIRED**

(a) Calculate the marginal cost of producing one unit of Esprit.

.....

.....

.....

.....

.....

.....

..... [4]

**Additional information**

Sparkle absorbs fixed production overheads on a unit basis. Other fixed overheads are not absorbed.

**REQUIRED**

(b) Calculate the cost of producing one unit using absorption costing.

.....

.....

.....

.....

.....

.....

..... [5]

(c) Calculate the profit for the year ended 31 December 2013 if Sparkle values inventory on a marginal cost basis.

.....  
.....  
.....  
.....  
.....  
..... [6]

(d) Calculate the profit for the year ended 31 December 2013 if Sparkle values inventory on an absorption cost basis.

.....  
.....  
.....  
.....  
.....  
.....  
.....  
..... [5]

(e) Prepare a statement reconciling the profit from 3(c) with your profit from 3(d).

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

