Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME	
CENTRE NUMBER	
CANDIDATE NUMBER	

6082053535

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 2019**

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 **18** printed pages and **2** blank pages.

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1 R Limited provided the following information at 30 June 2018.

An extract from the statement of financial position

	$
10% Debenture	75 000
Inventory	45 000
Other receivables (insurance)	1000
Other payables (electricity expenses)	500

An extract from the schedule of non-current assets

Details	Land and buildings $	Fixtures and fittings $	Motor vehicles $
Cost	350 000	75 000	200 000
Revaluation	100 000	-	-
Accumulated depreciation 30 June 2018	-	(35 000)	(50 000)
Net book value 30 June 2018	450 000	40 000	150 000

The company lost all its accounting records as a result of a computer virus but was able to provide the following summary of its receipts and payments for the year ended 30 June 2019.

	$		$
Takings banked	286 000	Purchases	135 000
		Insurance	12 000
		Motor vehicle expenses	10 000
		Wages and salaries	45 000
		Electricity expenses	2 700
		Motor vehicles	50 000
		Debenture interest	3 750

All the receipts and payments were through the bank.
All sales and purchases were on cash basis.

The company's depreciation policy is as follows:

Fixtures and fittings	10% per annum reducing balance method	Charged to administrative expenses
Motor vehicles	20% per annum reducing balance method	Charged to distribution costs
Land and buidings	No depreciation	

The following information is available at 30 June 2019.

1 Inventory was valued at cost $42 000 including damaged inventory costing $5000. This could be repaired at a cost of $450 and sold for $5100.

2 Insurance of $750 for the three months ended 31 July 2019 was outstanding.

3 Electricity expenses included $600 for the three months ended 31 August 2019.

4 Expenses are split as follows:

Insurance	Charged to administrative expenses
Motor vehicle expenses	Charged to distribution costs
Wages and salaries	Split between distribution costs and administrative expenses in the ratio of 4 : 1
Electricity expenses	Charged to administrative expenses

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2019. Use the space on the **next page** to show your workings.

R Limited
Income statement for the year ended 30 June 2019

	$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance cost	
Profit for the year	

Workings:

Cost of sales
Administrative expenses
Distribution costs
Finance cost

[17]

(b) State **two** differences between capital reserves and revenue reserves.

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Additional information

R Limited is planning to acquire a new building at a cost of $500 000 to expand its business. The directors are considering two options to finance this acquisition.

Option 1: issue of shares
Option 2: issue of a further debenture

REQUIRED

(c) Advise the directors which option should be chosen to raise finance to acquire the building. Justify your answer.

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(d) State **one** advantage and **one** disadvantage to a business:

(i) of making all sales on a cash basis only

Advantage ....

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Disadvantage ....

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[2]

(ii) of making all purchases on a cash basis only.

Advantage ....

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Disadvantage ....

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[2]

[Total: 30]

PLEASE TURN OVER

2 Nibali has provided the following information for the year ended 31 July 2019.

	$
Closing inventory	50 000
Opening inventory	30 000
Revenue	750 000
Trade receivables	65 000
Trade payables	31 850

Cash sales are 10% of total revenue.

Cash purchases are 25% of total purchases.

Gross margin is 20%.

Nibali's standard credit terms with both customers and suppliers are 30 days.

Industry average inventory turnover is 15 days.

REQUIRED

(a) Calculate:

(i) inventory turnover in days

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(ii) trade receivables turnover in days

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(iii) trade payables turnover in days.

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(b) Discuss the liquidity of Nibali's business based on the available information.

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(c) Identify **three** drawbacks for a business of holding too much inventory.

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[Total: 15]

3 Miguel and Bernard are in partnership, sharing profits and losses in the ratio 2 : 3 respectively.

The statement of financial position for the business at 31 May 2018 has been provided.

	$
Non-current assets	175 000
Current assets	
Inventory	60 000
Trade receivables	48 000
	108 000
Total assets	283 000
Capital and liabilities	
Capital accounts	
Miguel	100 000
Bernard	145 000
	245 000
Current liabilities	
Bank overdraft	12 000
Trade payables	26 000
	38 000
Total capital and liabilities	283 000

The partners admitted Eddy to the business on 1 June 2018. The following information is also available.

1 Eddy introduced non-current assets valued at $40 000 and cash of $50 000.

2 The new profit-sharing ratio will be 5 : 3 : 2 for Miguel, Bernard and Eddy respectively.

3 Goodwill was valued at $40 000 and will not be retained in the books of account.

4 Non-current assets at 31 May 2018 were revalued at $210 000.

5 Inventory at 31 May 2018 had a net realisable value of $45 000.

6 A provision for irrecoverable debts of 5% of trade receivables at 31 May 2018 was made.

REQUIRED

(a) Prepare, on the **next page**, the partners' capital accounts on 1 June 2018 following the admission of Eddy.

Capital accounts

	Miguel	Bernard	Eddy		Miguel	Bernard	Eddy
	$	$	$		$	$	$

Workings:

[6]

Additional information

On 1 October 2018 the following changes in the terms of the partnership were agreed by the partners.

1 All the cash introduced by Eddy was converted to a loan at an interest rate of 6% per annum.

2 Eddy would also receive a salary of $12 000 per annum.

3 The profit-sharing ratio was changed to 2 : 2 : 1 for Miguel, Bernard and Eddy respectively.

It was agreed that no adjustment for goodwill was required.

The draft profit for the year ended 31 May 2019, before interest on loan, was $39 000. This had accrued evenly throughout the year.

REQUIRED

(b) Prepare the appropriation account for the year ended 31 May 2019.

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(c) Explain **two** reasons why a partnership might keep separate current and capital accounts.

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[Total: 15]

4 Aramis operates a manufacturing business. He has been advised that he should use absorption costing in his factory.

REQUIRED

(a) Explain **two** drawbacks for a business of using a budgeted overhead absorption rate.

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Additional information

Aramis's factory comprises three departments – drilling, finishing and maintenance. The maintenance department costs consist of maintenance engineers' wages. The manufacturing process is machine intensive. The overheads of the drilling and finishing departments are made up of allocated costs and an apportioned share of the maintenance department.

The following budgeted information for the six months ended 31 March is available.

	Drilling	Finishing	Maintenance
Allocated costs	$435 720	$748 900	$208 000
Use of maintenance	38%	62%	
Machine hours	27 530	32 270	

REQUIRED

(b) (i) Allocate the maintenance department overhead costs to the drilling and finishing departments.

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(ii) Calculate, to **two** decimal places, a budgeted overhead absorption rate for the drilling and finishing departments.

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Additional information

The following information relates to maintenance engineers' wages during the six-month period.

Total hours worked	7500
Total basic hours worked	6800

Workers are paid a basic rate of $30 per hour. Overtime is paid at 1.5 times the basic rate.

REQUIRED

(c) Calculate the total actual wages for the maintenance engineers for the six-month period.

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Additional information

In addition to the actual maintenance wages, the following **actual** information for the six months ended 31 March has been made available.

	Drilling	Finishing
Total overhead costs	$427 360	$713 630
Machine hours	25 110	31 976

REQUIRED

(d) Calculate the over or under-absorption of production overheads for **each** department for the six-month period.

[8]

Additional information

Aramis's accountant has suggested that he uses marginal costing. He has provided the following analysis for one product:

		$
Direct materials		710
Direct labour	Drilling	225
	Finishing	85
Overhead absorbed	Drilling	115
	Finishing	45
Selling and administration costs		280

Half of the selling and administration costs are variable.

Aramis requires that all products achieve a profit margin of at least 15%.

A new customer has approached Aramis and offered to pay him $1300 for his product. The normal selling price for this product is $1750.

REQUIRED

(e) Advise Aramis whether or not he should accept the order. Justify your answer using **both** financial and non-financial factors.

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(f) State **four** factors that a business should consider before changing its supplier.

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[Total: 30]

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