Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

8600225526

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 2018**

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.

IB18 11_9706_22/5RP

CAMBRIDGE
International Examinations

[Turn over

1 Finn started business on 1 January 2017. He did not keep full accounting records.

A summary of his bank statements for the year ended 31 December 2017 was as follows.

	$
Receipts	
Capital introduced	15 000
From credit customers	98 600
Loan taken out	4 000
	117 600
Payments	
To credit suppliers	65 100
Rent	12 000
Cash	35 600
Purchase of fixtures and fittings	14 000
	126 700

The following information was available.

1 Receipts from customers paid into the bank but not yet showing on the bank statement were $1800.

2 Cheques paid to suppliers not yet presented to the bank amounted to $1600.

REQUIRED

(a) Calculate the balance at bank which would appear in the statement of financial position at 31 December 2017.

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.... [3]

Additional information

1 All sales were made on a credit basis. There were no sales returns during the year.

2 The total value of sales invoices issued during the year was $144 200.

3 Finn had allowed one customer to pay $100 less than the invoice amount because he had paid promptly.

REQUIRED

(b) Prepare a total trade receivables account for the year ended 31 December 2017 to show the amount owed to Finn at the year end.

Total trade receivables account

	$		$

[4]

Additional information

1 All purchases were made on a credit basis. There were no purchases returns during the year.

2 The total value of purchases invoices received was $79 300. Of these, $12 100 had not been paid by the year end.

3 Finn knew that he had sometimes taken a cash discount but had kept no record of the amounts involved.

REQUIRED

(c) Prepare a total trade payables account for the year ended 31 December 2017 to show the total discount Finn had taken.

Total trade payables account

	$		$

[4]

Additional information

1 Finn paid wages of $1200 in cash each month. He also took cash drawings of $500 every month.

2 Other operating expenses were all paid in cash.

3 Cash in hand was $100 at the year end.

REQUIRED

(d) Prepare a cash account for the year ended 31 December 2017 to show the amount paid for other operating expenses.

Cash account

	$		$

[4]

Additional information

1 The loan carried an interest rate of 10%. The loan had been received on 1 July 2017 and no interest had been paid by the year end.

2 The fixtures and fittings were expected to last for 10 years and have no scrap value. They are to be depreciated using the straight-line method. The policy is to provide for a full year's depreciation in the year of purchase.

3 At the year end other operating expenses, $1000, were accrued.

4 At the year end inventory was valued at cost, $6200.

REQUIRED

(e) Prepare the income statement for the year ended 31 December 2017.

[9]

(f) Advise Finn whether or not he should employ a book-keeper at a cost of $500 a month. Justify your answer.

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.... [4]

(g) State **two** reasons why a trader might maintain a provision for doubtful debts.

1 ....

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2 ....

.... [2]

[Total: 30]

PLEASE TURN OVER

2 Jack and Kelly are in partnership. They share profits and losses in the ratio of 2 : 5 respectively. The partners decided to admit Liam as a partner with effect from 1 July 2018.

The partnership's statement of financial position immediately prior to Liam's admission was as follows.

Jack and Kelly
Summarised statement of financial position
at 30 June 2018

	$
Assets	
Non-current assets	91 400
Current assets	21 700
Total assets	113 100
Capital and liabilities	
Capital accounts	
Jack	33 000
Kelly	71 000
Current liabilities	9 100
Total capital and liabilities	113 100

The partners do not maintain separate current accounts.

The following was agreed.

1 Assets were revalued upwards by $21 000.

2 Goodwill was valued at $52 500. No goodwill account was to be maintained in the partnership's books of account.

3 In the future profits and losses would be shared in the ratio Jack : Kelly : Liam, 2 : 5 : 3 respectively.

4 The balances of the partners' capital accounts immediately after Liam's admission should total $120 000 and be in the same ratio as the profit sharing ratio.

Each partner would either pay funds into, or withdraw funds from, the business bank account in order to achieve this requirement.

REQUIRED

(a) Prepare the partners' capital accounts to record Liam's admission as a partner on the **next page.**

Partners' Capital Accounts

	Jack	Kelly	Liam		Jack	Kelly	Liam
	$	$	$		$	$	$

[6]

(b) State what is meant by the term 'goodwill'.

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.... [1]

(c) Explain why a partnership may make an adjustment for goodwill when they admit a new partner.

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.... [2]

(d) Explain why partners may agree **not** to maintain a goodwill account in the books of the partnership on the admission of a new partner.

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.... [2]

Additional information

The partners forecast that profit for the year ending 30 June 2019 will be $60 000. This is an increase of 25% on the current year's profit. The partners believe that Liam's admission will result in an improved return on capital employed.

REQUIRED

(e) Advise the partners whether or not they are correct in believing that Liam's admission will result in an improved return on capital employed in the year ending 30 June 2019.

Support your answer with calculations.

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.... [4]

[Total: 15]

3 Part of the equity of a limited company consists of ordinary shares.

REQUIRED

(a) (i) Explain **two** reasons why a company may make a bonus share issue.

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2 ....

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[4]

(ii) State **three** uses of the share premium account, other than the issue of bonus shares.

1 ....

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2 ....

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3 ....

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[3]

Additional information

On 1 January 2017 the issued share capital of S Limited consists of ordinary shares of $0.40 each.

The following information is available for the year ended 31 December 2017:

1 On 1 April 2017 the company issued a 6% debenture of $300 000.

2 On 1 May 2017 the company paid a final dividend of $0.04 per ordinary share.

3 On 1 October 2017 the company made a rights issue of 1 ordinary share for every 4 held. The shares were offered at a 20% discount on the market price of $1.45. The rights issue was fully subscribed.

4 On 15 October 2017 the company paid an interim dividend of $0.015 per share to the shareholders who were on the share register at 1 August 2017.

5 The company's profit from operations for the year was $268 500.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 31 December 2017.

S Limited
Statement of changes in equity
for the year ended 31 December 2017

	Ordinary share capital $	Share premium $	General reserve $	Retained earnings $	Total $
Brought forward at 1 January 2017	1 250 000	–	130 000	65 000	1 445 000

Workings:

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.... [6]

(c) State the journal entry required to record a revaluation increase in the value of a non-current asset.

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.... [2]

[Total: 15]

4 G Limited produces a single product and uses break-even analysis.

REQUIRED

(a) State what is meant by the term ‘break-even point’.

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.... [1]

(b) State **three** uses of marginal costing.

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[3]

Additional information

The company’s factory is operating at full capacity and produces 5000 units a year. All units produced are sold. Its break-even point has been calculated as 2400 units.

Budgeted information for current production is as follows.

Per unit	
direct materials	4 kilos at $6 per kilo
direct labour	8 hours at $10 per hour
variable overheads	$12 per unit

	$
Annual revenue	1 000 000
Total annual fixed costs	201 600
Profit for the year	218 400

The company has the opportunity to buy some land so that the factory could be extended. The directors believe the company could sell 8000 units a year if the selling price was reduced.

If the factory was extended and production increased, the directors estimate the following changes would take place.

The selling price would be reduced by $5 per unit.
The price of direct materials would fall to $5.80 per kilo.
The direct labour rate would rise to $10.80 per hour.
Total fixed costs would increase by 50%.

REQUIRED

(c) Suggest a reason for:

(i) the decrease in the direct material price

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.... [1]

(ii) the increase in the direct labour rate.

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.... [1]

(d) Explain why fixed costs might increase by 50%.

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.... [3]

(e) Calculate:

(i) the profit for the year if the expansion went ahead

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.... [6]

(ii) the profit per unit if the expansion went ahead

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.... [1]

(iii) the contribution to sales ratio if the expansion went ahead.

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.... [2]

(f) Calculate the revised break-even point. Express your answer in terms of **both** revenue and units.

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.... [3]

Additional information

The purchase of land and site development would be financed with a long-term loan.

REQUIRED

(g) Explain how the proposed expansion of the factory might affect the shareholders' view of the safety of their investment.

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.... [4]

(h) Advise the directors whether or not they should proceed with the expansion of the factory. Justify your answer.

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.... [5]

[Total: 30]

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