Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME	

CENTRE NUMBER		CANDIDATE NUMBER	

2149896998

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.

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CAMBRIDGE
International Examinations

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	9 800	72 400
Total assets		132 400
Equity and liabilities		
Capital at 1 January 2013		108 600
Current liabilities		
Trade payables	18 200	
Other payables	5 600	23 800
		132 400

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.

REQUIRED

(a) Prepare the sales ledger control account for the year ended 31 December 2013.

[6]

(b) Prepare the purchases ledger control account for the year ended 31 December 2013.

[5]

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

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.... [4]

(d) Prepare the income statement for the year ended 31 December 2013.

[15]

[Total: 30]

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 $	Credit $

[2]

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

Account	Debit $	Credit $

[4]

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

Account	Debit $	Credit $

[4]

(iv) The disposal of equipment.

Account	Debit $	Credit $

[8]

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

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

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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.

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.... [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:

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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.

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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.

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.... [5]

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

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

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.... [5]

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

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(f) Explain the reason why valuing inventory on a marginal cost basis produces a different profit figure than valuing it on an absorption cost basis.

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.... [4]

Additional information

The directors of Sparkle have discovered that $7 500 fixed production overhead was incorrectly analysed as direct materials.

REQUIRED

(g) Explain the effect that this error will have on contribution and profit when using marginal costing.

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.... [4]

[Total: 30]