## Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE
NAME


## CENTRE NUMBER

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CANDIDATE NUMBER


## ACCOUNTING

9706/22
Paper 2 Structured Questions
October/November 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.

1 The following information relates to the business of Nother Limited.
Trial Balance at 31 March 2014

|  | $\begin{gathered} \mathrm{Dr} \\ \$ 000 \end{gathered}$ | $\begin{gathered} \mathrm{Cr} \\ \$ 000 \end{gathered}$ |
| :---: | :---: | :---: |
| Share capital |  | 1500 |
| Factory premises at cost | 1000 |  |
| Factory machinery at cost | 280 |  |
| Provisions for depreciation: Premises |  | 250 |
| Machinery |  | 140 |
| Inventories at 1 April 2013: Raw materials | 360 |  |
| Work in progress | 210 |  |
| Finished goods | 432 |  |
| Revenue |  | 5054 |
| Purchases of raw materials | 1896 |  |
| Manufacturing wages | 1250 |  |
| Factory expenses | 780 |  |
| Administrative expenses | 80 |  |
| Sales expenses | 416 |  |
| Retained earnings |  | 196 |
| Trade receivables and payables | 840 | 240 |
| Provision for doubtful debts |  | 36 |
| Bank overdraft |  | 144 |
| Bad debts written off | 16 |  |
|  | $\underline{7560}$ | $\underline{7560}$ |

## Additional information

1 Inventories at 31 March 2014 \$
Raw materials 300000
Work in progress 220000
Finished goods 480000
2 Other payables at 31 March 2014
Factory expenses 112000
Sales expenses 56000
Manufacturing wages 40000
3 Prepayments at 31 March 2014
Administrative expenses 8000

4 During the year ended 31 March 2014 a machine was sold for $\$ 14000$. This had been debited to the bank account and credited to the sales account.

The machine had been purchased for $\$ 44000$ and depreciation of $\$ 24000$ had been written off up to 31 March 2013. A full year's depreciation is provided in the year of purchase but none in the year of sale.

5 Depreciation is to be provided as follows:
Factory premises
1\% straight line
Factory machinery
$15 \%$ reducing (diminishing) balance.
6 The provision for doubtful debts is to be adjusted to 5\% of trade receivables.

## REQUIRED

(a) Prepare Nother Limited's manufacturing account for the year ended 31 March 2014.
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(b) Prepare Nother Limited's income statement for the year ended 31 March 2014.
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## (c) Explain the following terms.

Direct costs
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Indirect costs
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Prime cost
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Production cost
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2 Bill and Charles are in partnership sharing profits and losses in the ratio of 2:1.
Each partner draws $\$ 2000$ cash from the business each month.
On 1 October 2013 Bill paid $\$ 24000$ into the business bank account.
They provided the following information.

| Capital accounts | 1 January 2013 |  |
| :--- | :---: | :---: |
|  | $\$$ |  |
| Bill | 120000 |  |
| Charles | 60000 |  |
| Current accounts | 1 January 2013 | 31 December 2013 |
| Bill | $\$$ | $\$$ |
| Charles | 17000 Cr | 2160 Cr |
|  | 18000 Cr | 2800 Dr |

## REQUIRED

(a) Calculate the partnership profit for the year ended 31 December 2013 before appropriation.
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## Additional information

On 1 January 2014 a new partnership agreement came into force which stated that Bill and Charles will share profits and losses in the ratio of $3: 2$. Bill will receive $\$ 6000$ salary per annum, and Charles $\$ 5200$ salary per annum.

The rate of interest on capital is to be $8 \%$ per annum and interest on drawings is to be charged at $11 \%$ per annum.

Bill and Charles will continue to withdraw $\$ 2000$ each per month.
Goodwill was valued at $\$ 48000$ but is not to be retained in the books of account.
The net profit for the 6 months ended 30 June 2014 was $\$ 12000$.

## REQUIRED

(b) Prepare the capital accounts of Bill and Charles for the six months ended 30 June 2014.
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(c) Prepare the partnership appropriation account for the six months ended 30 June 2014.
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(d) Prepare the current account of Bill for the 6 months ended 30 June 2014.
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(e) (i) State two reasons why the partners are charged interest on drawings.

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2 $\qquad$
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(ii) State two reasons why the partners receive interest on capital.

1
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2
.............................................................................................................................. [2]

3 Aluko Limited manufactures three products for the automobile industry, BS100, BS200 and BS300.

The business is divided into four departments - machining, assembly, stores and canteen.
The following information is available for one unit of the three products.

|  | BS100 | BS200 | BS300 |
| :--- | ---: | ---: | ---: |
| Direct materials | $\$ 12.60$ | $\$ 14.10$ | $\$ 18.80$ |
| Direct labour hours - machining (\$7.80 per hour) | 30 minutes | 50 minutes | 55 minutes |
| Direct labour hours - assembly (\$6.30 per hour) | 10 minutes | 12 minutes | 15 minutes |
| Machine hours - machining | 20 minutes | 30 minutes | 30 minutes |
| Machine hours - assembly | 5 minutes | 5 minutes | 10 minutes |

The total estimated overhead costs for the year ended 30 June 2015 are as follows:

|  | $\$$ |
| :--- | ---: |
| Indirect wages | 232000 |
| Machinery maintenance | 94000 |
| Machinery insurance | 9020 |
| Rent and rates | 49600 |
| Buildings insurance | 12800 |
| Machinery depreciation | 26600 |

The following information is also available.

|  | Machining | Assembly | Stores | Canteen |
| :--- | ---: | ---: | ---: | ---: |
| Number of indirect employees | 8 | 16 | 4 | 2 |
| Floor area (sq metres) | 8000 | 9000 | 2000 | 1000 |
| Value of machinery (\$000) | 290 | 120 |  |  |
| Number of orders from stores | 6300 | 1300 |  |  |
| Budgeted labour hours | 7720 | 28600 |  |  |
| Budgeted machine hours | 46400 | 3200 |  |  |
| Use of canteen | $30 \%$ | $55 \%$ | $15 \%$ |  |

## REQUIRED

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

|  | Total <br> $\$$ | Machining <br> $\$$ | Assembly <br> $\$$ | Stores <br> $\$$ | Canteen <br> $\$$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| Indirect wages |  |  |  |  |  |
| Machinery maintenance |  |  |  |  |  |
| Machinery insurance |  |  |  |  |  |
| Rent and rates |  |  |  |  |  |
| Buildings insurance |  |  |  |  |  |
| Machinery depreciation |  |  |  |  |  |
|  |  |  |  |  |  |
| Reapportionment of canteen |  |  |  |  |  |
|  |  |  |  |  |  |
| Reapportionment of stores |  |  |  |  |  |

(b) Calculate appropriate absorption rates for each production department correct to two decimal places.
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## Additional information

The actual results for the year were as follows:

|  | Machining | Assembly |
| :--- | ---: | ---: |
| Factory overheads | $\$ 239110$ | $\$ 192860$ |
| Direct labour hours | 8420 | 28150 |
| Direct machine hours | 49120 | 3050 |

## REQUIRED

(c) Calculate the under or over absorption of overheads for each production department.

|  | Machining <br> $\$$ | Assembly <br> $\$$ |
| :--- | :---: | :---: |
|  |  |  |
|  |  |  |
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(d) Explain the reason for the over or under absorption of overheads calculated for each production department in part (c).
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$\qquad$

## Additional information

Aluko Limited has been asked to prepare a quotation for a customer requiring 250 units of BS200. The company requires a $35 \%$ gross profit on each order.

## REQUIRED

(e) Calculate the quoted selling price.

|  | \$ |
| :--- | :---: |
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(f) Explain the following terms in relation to overheads.

1 Allocation
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$\qquad$
$\qquad$

## 2 Apportionment

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## 3 Absorption

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