



### **Cambridge International Examinations**

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

**ACCOUNTING** 9706/22

Paper 2 Structured Questions

May/June 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.



**1** Cherie and Harry are in partnership.

## **REQUIRED**

(a) Explain **three** disadvantages of operating as a partnership rather than being in business as a sole trader.

1	
2	
3	
	[6]

## **Additional information**

The following information was available for the partnership on 30 June 2017.

	\$	
Bank overdraft	1680	
Capital accounts		
Cherie	42 000	
Harry	28 000	
Current accounts balances at 1 July 2016		
Cherie	1470	credit
Harry	2430	debit
Drawings		
Cherie	18 300	
Harry	16820	
Gross profit for the year	40 960	
Inventory at 30 June 2017	25 540	
Loan Account		
Cherie	8 000	
Non-current assets		
Cost	64 000	
Provision for depreciation	22 000	
Operating expenses	28 390	
Trade payables	1 170	

The following information is also available.

- 1 Operating expenses included a payment for rent, \$3450, for three months ended 31 August 2017.
- 2 Non-current assets are to be depreciated at 20% per annum using the reducing balance method.
- 3 Inventory at 30 June 2017 was overvalued by \$380.
- 4 Cherie is to receive interest at 8% per annum on her loan to the partnership. No entries have been made to record the interest for the year ended 30 June 2017. The balance of her loan account has remained unchanged throughout the year.

b)	Prepare the income statement for the year ended 30 June 2017. Start the statement gross profit for the year of \$40 960.	with
		[5]

1 Interest on drawings has been calculated as follows:

\$ Cherie 310 Harry 240

- 2 The partners are to receive interest on their fixed capital account balances at 10% per annum.
- 3 Residual profits and losses are to be shared in proportion to their capital account balances.

## **REQUIRED**

(c)	Prepare the appropriation account for the year ended 30 June 2017.
	[4]

(d) Prepare the partners' current accounts for the year ended 30 June 2017.

### **Current Accounts**

Cherie \$	Harry \$	Cherie \$	Harry \$
7	· · ·	τ	*

[6]

### **Additional information**

Cherie and Harry are concerned about some aspects of the business's efficiency and provide the following information.

Ratio	Year ended	Year ended	Industry
	30 June 2017	30 June 2016	Average
Non-current asset turnover	1.68 times	1.11 times	1.34 times
Trade payables turnover	28 days	33 days	31 days

(e)	Analyse the efficiency of the business using these ratios.
	[4]

The partners are also concerned that the rate of inventory turnover has fallen below the industry average. Cherie has suggested that this could be improved by reducing inventory levels. Harry disagreed and suggested instead that an advertising campaign should be organised.

## **REQUIRED**

(f)	Advise which course of action the partners should take in order to improve the rate of inventory turnover. Justify your advice by discussing <b>both</b> of the suggested options.
	[5]
	[Total: 30]

2	M Limited has prov	rided the	following	extract	from	the	statement	of	financial	position	at
	31 August 2016.		_								
	•			\$							
	Equity										
	Capital and reserves										
	Ordinary share	es of \$0.25	each	200 000							

 Ordinary shares of \$0.25 each
 200 000

 Share premium
 80 000

 Revaluation reserve
 40 000

 Retained earnings
 37 500

 357 500

The following information is available.

- 1 On 1 January 2017 a rights issue was made on the basis of two ordinary shares for every five ordinary shares held at a price of \$0.40 per share. The rights issue was fully subscribed.
- 2 On 30 June 2017 an interim dividend of \$0.04 per share was paid on all shares in issue at that date.
- 3 At 31 August 2017 non-current assets were re-valued **downwards** by \$48 000.
- 4 Profit for the year ended 31 August 2017 was \$22 500.

(a)	Prepare the statement of changes in equity for the year ended 31 August 2017. A total column is <b>not</b> required.
	[6]

(b)		te <b>two</b> reasons why capital reserves may be used before revenue reserves to fund nus issue of shares for a limited company.	l a
	1		
	2		
	•••••		
			[2]
(c)	(i)	State <b>two</b> benefits to a limited company of making a rights issue.	
		1	
			••••
			••••
		2	
			[2]
	(ii)	State <b>one</b> limitation to a limited company of making a rights issue.	
			 [1]

Directors of M Limited are considering obtaining a long-term bank loan to raise additional capital.

# **REQUIRED**

(d)

Explain <b>two</b> advantages to the company of this course of action.	
1	
2	
	[4

[Total: 15]

3 Butler operates a small business.

He has provided the following information for non-current assets at 31 July 2016.

\$

Plant and machinery

Cost 195 000 Provision for depreciation 68 250

During the year ended 31 July 2017, the following transactions took place.

- 1 A machine was sold for \$25 000. There was a loss on disposal of \$3000. The machine had been purchased on 28 May 2016.
- 2 A machine was purchased by cheque at a cost of \$37 500. The following costs were also incurred for the new machine:

Annual insurance 2825
Installation expenses 4500

Plant and machinery is depreciated using the reducing balance method at a rate of 20% per annum.

A full year's depreciation is charged in the year of purchase. No depreciation is charged in the year of disposal.

#### **REQUIRED**

(a) Prepare the following ledger accounts for the year ended 31 July 2017. Dates are **not** required.

(i) Plant and machinery at cost			
	\$		\$

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[3]

Provision for depreciation on plant and machinery

(ii)

		\$		\$
			L	[3]
REC	QUIRED			
	Explain why a business may machinery.	use reducing b	palance method of depreciation	n for plant and
Add	litional information			
Butl	er also purchases loose tools fo	or use in the bus	siness.	
(c)	Explain <b>two</b> accounting treatme	ents for loose to	ols.	
	1			
	2			

[4]

Explain <b>one</b> fundamental accounting concept relating to depreciation.	
	••
[2	<u>?]</u>
[Total: 15	5]

**4** SP Limited owns a hotel and a leisure centre.

The business is split into three working divisions: Accommodation, Leisure and Conferences.

The business also has one service centre: Support.

Labour, food and materials are allocated direct to the relevant division. The remaining overheads cannot be directly allocated.

The following budgeted information for the year ended 31 March 2018 is available:

	\$
Rent and rates	86 000
Light and heat	48 000
Advertising	40 000
Equipment depreciation	60 000
Office costs	150 000

The following cost centre information is available.

	Accommodation	Leisure	Conferences	Support
Floor space (m <sup>2</sup> )	25 000	4 000	10 000	1000
Equipment value (\$)	10 000	45 000	5000	_
Number of employees	23	5	5	2
Kilowatt hours	7000	4 000	3000	1 000
Budgeted guest days	12000	3 000	5000	_

Advertising and office costs are apportioned on the basis of budgeted guest days.

#### **REQUIRED**

(a) Apportion the budgeted overheads to the four divisions using a suitable basis for each. Re-apportion the support costs to the three working divisions on the basis of guest days.

	Total \$	Accommodation \$	Leisure \$	Conferences \$	Support \$
Labour cost	345 000	194 000	86 000	60 000	5 0 0 0
Food and materials	81 000	42 000	11 000	26 000	2000
Rent and rates	86 000				
Light and heat	48 000				
Advertising	40 000				
Equipment depreciation	60 000				
Office costs	150 000				
Total apportioned overheads					
Reapportionment of Support					
Total					

(b)		verhead absorption on budgeted gues		two decimal plac	es, for <b>each</b> of	the three working
				Accommodation \$	Leisure \$	Conferences \$
		•••••				
						[3]
	ditional informa e actual results fo	tion or the year ended 3	1 March	n 2018 were as fol	llows:	
	commodation sure	Total cost (\$) 522 000 215 000		st days 13 200 3 600		
	nferences	196 000		5800		
RE	QUIRED					
(c)	Calculate the ur	nder-absorption or	over-ab	sorption of overhe	eads for each di	vision.
				Accommodation \$	Leisure \$	Conferences \$
						re)
						[6]

The company's policy is to charge customers a price to achieve a profit margin of 60%.

A business customer wishes to register five employees for a three day conference to include four days' accommodation, one day's leisure and three days' conference facilities for each employee.

(d)	Prepare a statement to calculate the price to be quoted to the customer.
	[4]
Add	ditional information
	directors have been informed that a competitor has quoted a price \$600 <b>more</b> for the same ference. They are considering revising their own pricing policy to increase accommodation
pric	es by 20%.
	es by 20%.  QUIRED
RE(	
RE(	QUIRED  Advise the directors whether or not they should increase their accommodation prices. Give
RE(	QUIRED  Advise the directors whether or not they should increase their accommodation prices. Give reasons for your answer.
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RE(	Advise the directors whether or not they should increase their accommodation prices. Give reasons for your answer.

A company has recently employed a new assistant accountant with only limited knowledge of budgetary control procedures.

#### **REQUIRED**

(f)	State <b>two</b> benefits to a company of operating a system of budgetary control.
	1
	2
	[2]
(g)	State <b>two</b> limitations to a company of operating a system of budgetary control.
	1
	2
	[2]
	[Total: 30]

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