UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

3539198729

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 2011**

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 a soft pencil for rough working.
Do not use staples, paper clips, highlighters, 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.

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1	
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Total	

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1 Kirsty, a sole trader, prepared the following trial balance at 30 April 2011.

	$	$
Rent	4 000	
General expenses	6 000	
Insurance	3 300	
Salaries	14 000	
Electricity	2 000	
Capital		44 000
Motor expenses	4 900	
Bad debts	200	
Drawings	6 000	
Trade receivables	6 200	
Trade payables		3 800
Cash and cash equivalents	2 600	
Inventory	3 600	
10% Loan		15 000
Loan interest	1 250	
Carriage outwards	700	
Commission received		730
Ordinary goods purchased	56 000	
Revenue		108 000
Purchases returns		2 500
Sales returns	4 800	
Discounts allowed	600	
Discounts received		400
Provision for doubtful debts		520
Equipment	48 000	
Provision for depreciation of equipment		14 400
Motor vehicles	36 000	
Provision for depreciation of motor vehicles		10 800
	200 150	200 150

The following information is also available:

1 The closing inventory at 30 April 2011 was valued at $4200.

2 Included in the general expenses is an item of equipment purchased during the year for $1200. This item has not yet been included in the equipment account.

3 A cheque for $800 received from a credit customer has not yet been entered in the accounts.

4 At 30 April 2011:
loan interest owing amounted to $250
electricity owing was $380
insurance was prepaid by $460

5 During the year Kirsty had withdrawn, for her personal use, goods costing $1800. This has not been recorded in the accounts.

6 Commission receivable of $150 was owing to Kirsty at 30 April 2011.

7 The provision for doubtful debts is to be provided for a specific debt of $200, plus 2% of the remaining debtors.

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8 One half of the 10% loan is repayable during the year ending 30 April 2012, and the balance is repayable after that date.

9 Depreciation is to be provided as follows:

Equipment 10% per annum on cost.
A full year's depreciation is provided on all equipment held at 30 April 2011, regardless of the date of purchase.

Motor vehicles 25% by the reducing (diminishing) balance method. There were no additions or disposals during the year.

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REQUIRED

(a) Prepare the income statement (trading and profit and loss account) for Kirsty for the year ended 30 April 2011.

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(b) Prepare the statement of financial position (balance sheet) for Kirsty at 30 April 2011.

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During May 2011 Kirsty purchased new machinery with the following pricing details.

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	$
List price	60 000
10% trade discount	6 000
Delivery costs	1 000
Installation costs	2 000

The machinery maintenance costs are estimated to be $5000 per annum.

Kirsty plans to keep the machinery for 5 years and then dispose of it for an estimated residual value of $4000.

REQUIRED

(c) Calculate the cost figure which should be used as the basis for depreciation.

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(d) Calculate the annual depreciation charge using the straight line method.

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(e) Prepare the Disposal of Machinery Account if the machinery is sold for $12 000 at the end of **four** years.

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[Total: 30]

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2 Answer Section **A** and Section **B**.

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A The sales ledger control account of Dream Beds for the year ended 31 December 2010 is shown below.

		$			$
Jan 1	Balance b/d	43 900	Dec 31	Sales returns	28 510
Dec 31	Sales	522 650		Bank	436 300
	Bank (dishonoured cheques)	2 200		Discount allowed	28 800
				Bad Debts	8 400
				PLCA	3 210
				Balance c/d	63 530
		568 750			568 750

The schedule of trade receivables (debtors) extracted from the sales ledger at 31 December 2010 totalled $61 140.

The following errors were subsequently discovered:

1 A sale of $750 had been entered in John's account in the sales ledger as $570. The correct entry had been made in the sales journal.

2 An entry of $850 was correctly entered in Samera's account in the sales ledger, closing the account owing to Samera's bankruptcy. No other entry had been made.

3 A sum of $120 discount allowed had been debited to Beach's account in the sales ledger. The correct entry had been made in the cash book.

4 At 31 December 2010 the balances in Richard's accounts were:

	$	
Purchases Ledger	2680	Credit
Sales Ledger	1980	Debit

It was decided to set off Richard's balance in the sales ledger against the balance in the purchases ledger. No entries had been made.

5 Goods to the value of $800 were sold to Claire in June 2010, and the account had not yet been paid. Interest charges of $30 are to be applied on the overdue account, but no entries for this had yet been recorded.

In addition a provision for doubtful debts of 10% on the new outstanding balance is to be created.

6 Dream Beds had sent goods with a selling price of $400 on a sale or return basis to Majit. Majit had not yet signified any intention to purchase the goods. Dream Beds had considered the goods as sold, and made the relevant accounting entries.

7 A page in the sales returns journal in October 2010 had been undercast by $1600. No correction had yet been made.

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REQUIRED

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(a) Prepare the corrected sales ledger control account for the year ended 31 December 2010.

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(b) Prepare a statement reconciling the schedule of trade receivables (debtors) total with the corrected balance in the sales ledger control account.

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(c) Explain **two** advantages of using a sales ledger control account.

(i) ....

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(ii) ....

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B S Turner owns a food wholesale business. The following amounts were extracted from books of account at 31 December 2010.

	$
Inventory – 1 January	45 000
Inventory – 31 December	65 000
Cost of sales	880 000
Business expenses	130 000
Trade payables	100 000
Trade receivables	150 000
Bank overdraft	50 000
Capital – 31 December 2010	1 125 000

The mark up on goods is 25%.

REQUIRED

(a) Calculate the profit for the year (net profit) ended 31 December 2010.

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(b) Calculate the following ratios, giving your answer to **one** decimal place.

(i) Return on capital employed

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(ii) Inventory turnover (as a number of times)

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(iii) Liquid (acid test) ratio.

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S Turner is considering expanding her business by purchasing another food wholesale business.

She has obtained the following information on two possible business purchases.

	Paradis Foods	**Jones Wholesalers**
Return on capital employed	15%	6%
Current ratio	3.4:1	1.8:1
Liquid (acid test) ratio	0.5:1	1.4:1

REQUIRED

(c) Advise which business, if any, she should purchase on the basis of all of the information provided. Justify your answer.

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[Total: 30]

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3 Mary Smith's sales and costing information for the year ended 31 December 2010 included the following:

Sales (units)	25 000
Selling price per unit	$35
Total costs for the year	$
Direct materials	200 000
Direct labour	250 000
Variable overheads	50 000
Fixed costs	180 000

REQUIRED

(a) Calculate the following for the year ended 31 December 2010.

(i) Contribution per unit

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(ii) Break even output level in units

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(iii) The margin of safety expressed both in units **and** as a percentage of sales.

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(b) State **three** fixed costs a business typically incurs.

(i) ....

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(ii) ....

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(iii) ....

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(c) Explain what is meant by the term 'stepped costs'.

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During 2011 sales (in units) were expected to remain at the 2010 level of 25 000 units.

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Mary Smith is in the process of compiling her 2012 budget. Research has indicated a potential increase in sales (in units) of 60% compared with the 2010 level. The company is assuming that selling price **and** all variable costs per unit in 2012 will remain at the 2010 level.

The current production level is 32 000 units per annum.

To increase production further would require:

capital investment of $3 000 000;

an increase in fixed costs of $195 000 per annum.

REQUIRED

(d) Prepare **and** label a break-even chart for 2012, taking into account all of the potential amendments.

Use the space below for your workings.

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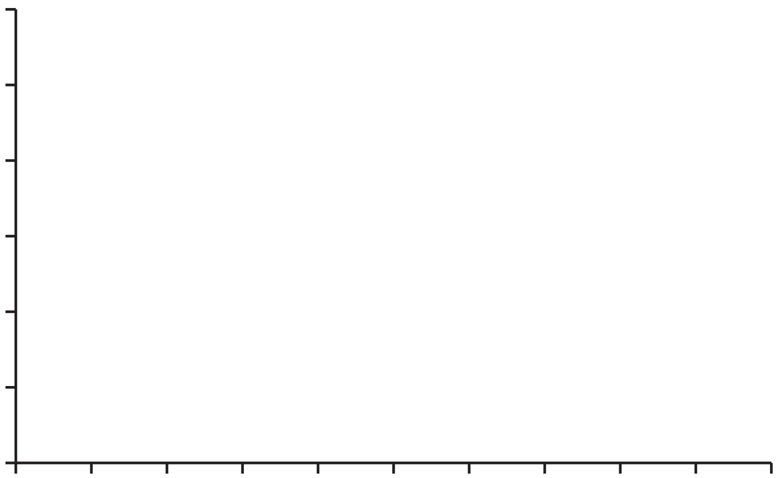

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(e) Increasing production will allow the firm to potentially earn more profit. However, it could pose significant risks to the business.

Evaluate the above statement using your answers to parts **(a)** and **(d)**.

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