



Cambridge International Examinations

Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

ACCOUNTING 9706/22

Paper 2 Structured Questions

October/November 2016
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 Tom and Jerry are in partnership. They do not have a formal partnership agreement.

The following information is available for the partnership for the year ended 30 November 2015:

	\$	
Capital account balances at 30 November 2015		
Tom	90 000	
Jerry	54 000	
Current account balances at 1 December 2014		
Tom	18 000	Credit
Jerry	10800	Debit
Drawings for the year		
Tom	8 000	
Jerry	2800	
Profit from operations	12600	
Loan from partner account		
Tom	24 000	

Tom made the loan to the partnership on 1 December 2014.

Profits had accrued evenly and drawings had been taken evenly throughout the year.

Additional information

Tom and Jerry prepared a formal partnership agreement to take effect from 1 September 2015. The terms of the agreement were:

- 1 Interest on capital was to be at a rate of 8% per annum.
- 2 Interest on drawings was to be at a rate of 3% per annum based on the annual drawings.
- 3 Tom was to be paid a salary of \$16216 per annum.
- 4 Profits and losses were to be shared in the ratio 3:2 respectively.
- 5 Loan interest was to be paid at a rate of 4% per annum.

REQUIRED

(a)	Calculate the profit before appropriation for the nine months ended 31 August 2015 and t three months ended 30 November 2015.							
	[3							

(b) Prepare the appropriation account for the nine months ended 31 August 2015 and the three months ended 30 November 2015.

Appropriation Account

9 months \$	3 months \$	
		[6]

(c)	Prepare the current accounts for Tom and Jerry for the year ended 30 November 2015.	
		••••
		••••
		••••
		••••
		[8]
Ado	ditional information	
	e partnership is considering expansion and will need to purchase additional non-current asset cost of \$60 000.	ets
RE	QUIRED	
(d)	State the difference between capital and revenue expenditure.	
		••••
		••••
		 [2]
		[4]
(e)	Identify and explain one accounting concept relating to depreciation.	
		[3]

(f) (i)	Discuss two possible sources of finance which could be used to fund the purchase of
() ()	the additional non-current assets.
	1
	2
	[6]
(ii)	Recommend the most appropriate source of finance for the partnership. Justify your answer.
	[2]
	[Total: 30]

2 The directors of Rebuild Limited are preparing the financial statements for the year ended 31 December 2015. The equity section of the statement of financial position at 31 December 2014 was as follows:

	\$
Ordinary shares of \$2 each, fully paid	240 000
Share premium	8 0 0 0
General reserve	40 000
Retained earnings	75 500
	<u>363 500</u>

During the year ended 31 December 2015, the following transactions took place:

March 1	Issued 10 000 ordinary shares at \$2.10 each
March 31	Paid final dividend of 3% on all shares in issue at 31 December 2014
December 31	The directors revalued the company premises upwards by \$20 000

The profit for the year ended 31 December 2015 was \$47 100.

REQUIRED

(a)	Prepare the statement of changes in equity for the year ended 31 December 2015.
	[5]

The directors of Rebuild Limited made a bonus issue of ordinary shares on 30 June 2016. The basis of the issue was one ordinary share for every twenty-five ordinary shares held. The company policy is to leave reserves in their most flexible form.

The profit for the 6 months ended 30 June 2016 was \$25 000.

REQUIRED

(b)	Prepare the statement of changes in equity for the 6 months ended 30 June 2016.	
		••••
		[4]
(c)	State two differences between ordinary shares and debentures.	
	1	
	2	••••
		[4]

The	following	item	appears	on	the	statement	of	financial	position	of	Rebuild	Limited
at 31	Decembe	r 2015	5:									

6% debentures (2018–2020) \$60 000

	[Total:	15]
		[1]
(e)	State why an issue of debentures does not appear in the statement of changes in equity.	
(-)		
		[1]
(d)	State the significance of (2018–2020).	

Question 3 is on the next page.

3	Contador, a sole trader, has provided the following extract from the trial balance for the year
	ended 31 March 2015. He does not maintain control accounts as part of his accounting records.

	\$
Debit balances	112375
Credit balances	120 835

REQUIRED

(a)	(i)	State the use of a suspense account.
		[1]
	(ii)	State three advantages to a business of maintaining a sales ledger control account.
		1
		2
		3
		[2]

Additional information

The following errors have been identified:

- 1 The sales journal had been overcast by \$26350.
- 2 Motor expenses of \$5270 had been posted to the motor vehicles account. Motor vehicles had been depreciated at 20% per annum.
- Interest received of \$8945 had been debited to both the bank account and the interest received account.

REQUIRED

(b)	Prepare journal entries to correct all of the errors identified. Narratives are not required.	
		,
(c)	Assess the effect of these errors on the profit for the year.	
		[3

4 Rodriguez Limited is a manufacturing business producing two products, Product X and Product Y. The following budgeted information is available for the next month:

Budgeted production (units)	Product X 5000	Product Y 7000
Costs per unit:	\$	\$
Materials	12.50	10.75
Labour	18.40	27.60
Variable overheads	9.10	6.65
Fixed overheads	5.75	4.80

Additional information

- 1 Both products are sold with a 20% mark-up on marginal cost.
- 2 Direct labour is paid at a rate of \$4.60 per hour.

REQUIRED

(a)	Cal	culate for each product	
	(i)	unit contribution in dollars,	
			••••
			 [2
	(ii)	total direct labour hours required to meet budgeted production.	2]
			••••
			••••
			 [2

The business only has a total of 59 000 direct labour hours available.

REQUIRED

(b)	Calculate the available.	he	maximum	profit	that	can	be	achieved	from	the	total	direct	labour	hours
							•••••							
				•••••			•••••							
	•••••						•••••							
							•••••							
							•••••							
							•••••							
														[7]

The company has two possible options to enable it to achieve the budgeted production.

- Option 1 Pay existing staff overtime. This will be paid at a rate of \$5.75 per hour.
- Option 2 Buy in the required products from an external supplier at a cost of \$50 per unit.

REQUIRED

(c)	(i)	Evaluate the options available to the company to achieve the budgeted production.
		Support your answers with calculations.
		Option 1
		Option 2

	(ii)	Recommend which option the company should choose. Justify your answer.
		[3]
(d)	(i)	State three advantages of budgetary control.
		1
		2
		3
		[3]
	(ii)	State three disadvantages of budgetary control.
		1
		2
		3
		[3]
		[Total: 30]

BLANK PAGE

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

To avoid the issue of disclosure of answer-related information to candidates, all copyright acknowledgements are reproduced online in the Cambridge International Examinations Copyright Acknowledgements Booklet. This is produced for each series of examinations and is freely available to download at www.cie.org.uk after the live examination series.

Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.