Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

CANDIDATE NAME

CENTRE NUMBER | CANDIDATE NUMBER

1440226124

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.

This document consists of **13** printed pages and **3** blank pages.

1 The following information relates to the business of Nother Limited.

Trial Balance at 31 March 2014

		Dr	Cr
		$000	$000
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	
		7560	7560

Additional information

1 Inventories at 31 March 2014

	$
Raw materials	300 000
Work in progress	220 000
Finished goods	480 000

2 Other payables at 31 March 2014

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Factory expenses	112 000
Sales expenses	56 000
Manufacturing wages	40 000

3 Prepayments at 31 March 2014

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Administrative expenses	8 000

4 During the year ended 31 March 2014 a machine was sold for $14 000. This had been debited to the bank account and credited to the sales account.

The machine had been purchased for $44 000 and depreciation of $24 000 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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[Total: 30]

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 $24 000 into the business bank account.

They provided the following information.

Capital accounts	1 January 2013	
	$	
Bill	120 000	
Charles	60 000	
Current accounts	**1 January 2013**	**31 December 2013**
	$	$
Bill	17 000 Cr	2 160 Cr
Charles	18 000 Cr	2 800 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 $48 000 but is not to be retained in the books of account.

The net profit for the 6 months ended 30 June 2014 was $12 000.

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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(ii) State **two** reasons why the partners receive interest on capital.

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[Total: 30]

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	232 000
Machinery maintenance	94 000
Machinery insurance	9 020
Rent and rates	49 600
Buildings insurance	12 800
Machinery depreciation	26 600

The following information is also available.

	Machining	Assembly	Stores	Canteen
Number of indirect employees	8	16	4	2
Floor area (sq metres)	8 000	9 000	2 000	1 000
Value of machinery ($000)	290	120		
Number of orders from stores	6 300	1 300		
Budgeted labour hours	7 720	28 600		
Budgeted machine hours	46 400	3 200		
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 $	Machining $	Assembly $	Stores $	Canteen $
Indirect wages					
Machinery maintenance					
Machinery insurance					
Rent and rates					
Buildings insurance					
Machinery depreciation					
Reapportionment of canteen					
Reapportionment of stores					

[8]

(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	$239 110	$192 860
Direct labour hours	8 420	28 150
Direct machine hours	49 120	3 050

REQUIRED

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

	Machining $	Assembly $

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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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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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[6]

(f) Explain the following terms in relation to overheads.

1 Allocation ....

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2 Apportionment ....

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3 Absorption ....

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[Total: 30]

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