



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

CANDIDATE
 NAME

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CENTRE
 NUMBER

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ACCOUNTING

Paper 2 Structured Questions

9706/23

May/June 2012

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.

| For Examiner's Use | |
|--------------------|--|
| 1 | |
| 2 | |
| 3 | |
| Total | |

This document consists of **14** printed pages and **2** blank pages.



- 1 Shaun is a sole trader. He pays all the sales receipts into the business bank account. He provided his accountant with the following information for the year ended 31 December 2011.

Bank account summary for the year ended 31 December 2011

| Dr. | \$ | Cr. | \$ |
|-------------------|---------|------------------|---------|
| Rent received | 16 800 | Balance b/d | 5 620 |
| Trade receivables | 203 200 | Trade payables | 122 460 |
| Cash sales | 18 510 | General expenses | 22 000 |
| | | Wages | 32 560 |
| | | Motor vehicles | 19 200 |
| | | Equipment | 17 400 |
| | | Drawings | 27 560 |

Shaun's remaining assets and liabilities were:

| | 1 January 2011 | 31 December 2011 |
|---------------------------------|----------------|------------------|
| | \$ | \$ |
| Inventory (at cost) | 22 300 | 17 400 |
| Premises (at cost) | 100 000 | 100 000 |
| Equipment (net book value) | 28 400 | 27 600 |
| Motor vehicles (net book value) | 65 000 | 68 200 |
| Trade receivables | 22 400 | 28 600 |
| Trade payables | 17 500 | 19 470 |
| General expenses prepaid | 1 100 | 900 |
| Rent received prepaid | 800 | – |
| Rent received owing | – | 1 300 |
| Wages owing | 2 400 | 500 |

Additional information:

- Shaun allowed his customers discounts of \$4000.
- Discounts received from suppliers were \$3100.
- Shaun has decided to create a provision for doubtful debts of 2% of the trade receivables outstanding at 31 December 2011.
- General expenses in the bank account summary include an amount of \$660 which relates to the payment of Shaun's private house insurance.
- Shaun had taken goods at a cost price of \$3700 for his personal use.

REQUIRED

*For
Examiner's
Use*

(a) Calculate the value of Shaun's sales and ordinary goods purchased for the year ended 31 December 2011.

(i) Sales

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(ii) Ordinary goods purchased

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2 Amirtha commenced business on 1 January 2010. During the first two years of business the following non-current assets were purchased on the dates shown:

For
Examiner's
Use

| Motor vehicles | | |
|-----------------------|-----|--------|
| 2010 | | \$ |
| 1 January | MV1 | 26 000 |
| 1 July | MV2 | 18 000 |
| 2011 | | |
| 1 April | MV3 | 24 000 |

| Equipment | | |
|------------------|-----|--------|
| 2010 | | |
| 1 January | EQ1 | 30 000 |
| 2011 | | |
| 1 January | EQ2 | 44 000 |

Amirtha has a policy to depreciate motor vehicles at 20% per annum on cost (straight line method) and equipment at 15% per annum on cost (straight line method), rates being charged for each month of ownership.

REQUIRED

(a) Calculate the total depreciation for each of the years 2010 **and** 2011.

(i) Motor vehicles

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(ii) Equipment

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Early in 2012, consideration was given to changing to the reducing (diminishing) balance method, with the following rates applying to the balance at the end of each year.

| | |
|----------------|-----|
| Motor vehicles | 25% |
| Equipment | 20% |

A full year's depreciation would be charged irrespective of the date of purchase.

REQUIRED

(b) Calculate the total depreciation for **each** of the years 2010 **and** 2011, using the reducing (diminishing) balance method for:

(i) Motor vehicles

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(ii) Equipment.

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The original profits for the first two years in business were:

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|------|----------|
| 2010 | \$86 000 |
| 2011 | \$94 000 |

*For
Examiner's
Use*

REQUIRED

- (c) Prepare a statement to show the revised profits for the years 2010 and 2011, if the reducing (diminishing) balance method had been used.

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- (d) Explain why it is appropriate to use the reducing (diminishing) balance method for motor vehicles.

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The following information is also available from the books of Amirtha.

| | 1 January 2011 \$ | 31 December 2011 \$ |
|---------------|----------------------|------------------------|
| Wages | 2 040 accrued | 2 130 accrued |
| Insurance | 130 accrued | 610 prepaid |
| Rent received | 1 490 prepaid | 1 320 prepaid |

During the year ended 31 December 2011 the following transactions took place.

| | \$ |
|----------------|--------|
| Wages paid | 24 100 |
| Insurance paid | 1 400 |
| Rent received | 14 000 |

All transactions are through the bank account.

REQUIRED

- (e) Prepare the following ledger accounts for the year ended 31 December 2011, showing the closing entry to the financial statements at the end of the year. Dates are not required.

(i) Wages account

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(ii)

Insurance account

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(iii)

Rent received account

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[Total: 30]

3 Wigmore Ltd uses one factory overhead recovery rate which is a percentage of total direct labour costs. The rate is calculated from the following budgeted data.

| Department | Factory overheads \$ | Direct labour costs \$ | Direct labour hours | Direct machine hours |
|------------|-------------------------|---------------------------|---------------------|----------------------|
| Production | 150 000 | 500 000 | 120 000 | 7 000 |
| Assembly | 450 000 | 1 000 000 | 225 000 | 10 000 |
| Packing | 360 000 | 900 000 | 200 000 | – |

The cost sheet for job 787 shows the following information.

| Department | Direct labour costs \$ | Direct labour hours | Direct machine hours | Direct material costs \$ |
|------------|---------------------------|---------------------|----------------------|-----------------------------|
| Production | 2 400 | 400 | 80 | 180 |
| Assembly | 1 100 | 700 | 90 | 150 |
| Packing | 1 000 | 650 | – | 170 |

General administration expenses of 20% are added to the total factory cost. The selling price to the customer is based on a 25% net profit margin.

REQUIRED

(a) Calculate the current factory overhead rate for Wigmore Ltd.

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(b) Prepare a detailed cost statement to calculate the selling price for job 787.

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[6]

(c) Calculate the overhead rate for **each department** using the following methods:

(i) Percentage of direct labour cost

Production

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Assembly

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Packing

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[3]

(ii) Direct labour hour rate

Production

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Assembly

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Packing

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(d) Using the direct labour hour rates calculated in (c) (ii), prepare a detailed cost statement to calculate the new selling price for job 787.

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- (e) (i) Discuss the problems associated with using predetermined overhead absorption rates.

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- (ii) State the effect on profits if the factory **does not** operate at full capacity.

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[Total: 30]

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