Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

7585965562

ACCOUNTING **9706/22**

Paper 2 Structured Questions **February/March 2020**

1 hour 30 minutes

You must answer on the question paper.

No additional materials are needed.

INSTRUCTIONS

- Answer **all** questions.
- Use a black or dark blue pen.
- Write your name, centre number and candidate number in the boxes at the top of the page.
- Write your answer to each question in the space provided.
- Do **not** use an erasable pen or correction fluid.
- Do **not** write on any bar codes.
- You may use an HB pencil for any rough working.
- You may use a calculator.
- You should present all accounting statements in good style.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **16** pages. Blank pages are indicated.

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1 The following information is available for S Limited for the year ended 31 December 2019.

Balances at 1 January 2019

	$
Inventory	122 000
Administrative expenses accrued	3 875

Amounts paid during the year ended 31 December 2019

Distribution costs	84 475
Administrative expenses	298 875
Purchases	435 000

Amounts received during the year ended 31 December 2019

Revenue	998 400

Balances at 31 December 2019

Inventory	134 200
Administrative expenses prepaid	7 500
6% debenture (2024)	100 000

The following information is also available.

1 Inventory at 31 December 2019 included some damaged goods which had cost $5000. These goods can only be sold for $3000 after repairs costing $700 have been carried out.

2 The 6% debenture (2024) was issued on 1 September 2019.

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REQUIRED

(a) Prepare the income statement for the year ended 31 December 2019.

S Limited
Income statement for the year ended 31 December 2019

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Workings:

[10]

Additional information

The following additional balances were also available at 1 January 2019.

	$
Ordinary shares of $1 each	100 000
Share premium	20 000
Retained earnings	126 230

1 An interim dividend of $0.08 per share was paid on 30 June 2019.

2 A bonus issue of one ordinary share for every four shares held was made on 31 October 2019. Reserves were maintained in their most flexible form.

3 A final dividend of $0.09 per ordinary share was proposed on 31 December 2019.

REQUIRED

(b) Explain what is meant by 'Reserves were maintained in their most flexible form'.

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[2]

(c) Prepare the ordinary share capital account for the year ended 31 December 2019.

Ordinary share capital account

	$		$

[4]

(d) Prepare the statement of changes in equity for the year ended 31 December 2019.

S Limited
Statement of changes in equity for the year ended 31 December 2019

	Share capital $	Share premium $	Retained earnings $	Total $

[5]

Additional information

The directors are planning to acquire more machinery in the following year and require a further investment of $50 000. They are considering two options:

option 1: issue an additional 6% debenture for $50 000

option 2: make a rights issue of one ordinary share for every five shares held at a premium of $1 per share.

REQUIRED

(e) Advise the directors on which option they should choose. Justify your answer.

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[9]

[Total: 30]

2 Depreciation is provided for by a business when accounting for non-current assets.

(a) (i) State **three** possible causes of depreciation.

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2 .....

3 .....

[3]

(ii) Explain **two** accounting concepts which are applied when providing for depreciation.

1 Concept .....

Explanation

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2 Concept .....

Explanation

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[4]

The directors of K Limited prepare financial statements to 31 December. They have provided the following information.

Balances at 1 January 2019

	$
Motor vehicles cost	180 000
Motor vehicles provision for depreciation	105 000

During the year ended 31 December 2019

1 A new motor vehicle was acquired for $50 000.

2 A motor vehicle which had cost $40 000 and been depreciated by $17 500 was sold for $16 500.

The company policy is to depreciate motor vehicles at 25% per annum using the reducing balance method.

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

REQUIRED

(b) Prepare for the year ended 31 December 2019:

(i) motor vehicles provision for depreciation account

Motor vehicles provision for depreciation account

		$			$

[6]

(ii) disposal account

Disposal account

		$			$

[2]

[Total: 15]

3 Eden runs a small business and has provided the following information for the year ended 31 December 2019.

	$
Trade receivables at 1 January 2019	45 000
Contra sales ledger to purchases ledger	780
Discounts allowed	1 025
Discounts received	695
Interest charged on a customer's overdue account	65
Irrecoverable debt	945
Receipts from trade receivables	128 600
Returns inwards	2 500
Returns outwards	1 800
Total sales	190 000

20% of total sales are cash sales; the remainder are credit sales.

REQUIRED

(a) Explain **three** advantages to a business of preparing control accounts.

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[6]

(b) Prepare the sales ledger control account for the year ended 31 December 2019.

Sales ledger control account

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[9]

[Total: 15]

4 Cuthbert runs a manufacturing business which has two production departments and one service department. The business allocates and apportions overhead expenditure between production and service departments.

REQUIRED

(a) Explain **one** difference between overhead allocation and overhead apportionment.

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[2]

(b) State what is meant by:

(i) a production department

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[1]

(ii) a service department

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[1]

Additional information

The following budgeted information has been provided.

	$
Rent	18 000
Heating and lighting	12 500
Depreciation	11 200
Employee overheads	8 300
	50 000

	Production department 1	Production department 2	Service department
Area (Square metres)	4 500	3 000	1 500
Electricity used (Kilowatt hours)	60 000	30 000	10 000
Non-current assets at net book value ($)	75 000	45 000	
Number of employees	45	25	13
Direct labour hours	4 000	1 200	
Machine hours	1 500	2 000	

Service department costs are re-apportioned on the basis of electricity used.

REQUIRED

(c) Complete the table to apportion the budgeted overheads to each department. Re-apportion the service department costs to the two production departments.

Overhead	Production department 1 $	Production department 2 $	Service department $	Total $
Rent				
Heating and lighting				
Depreciation				
Employee overheads				
Service department re-apportionment				

[8]

(d) Calculate the overhead absorption rate for both production departments using an appropriate basis. Give your answers to **two** decimal places.

Production department 1

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Production department 2

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[4]

(e) Explain the reason for the re-apportionment of the service department costs.

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[2]

(f) State **three** limitations of using absorption costing.

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2 .....

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3 .....

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[3]

Additional information

A customer made a request for a special order.

The manufacture of this order would require direct materials of $2 800 and direct labour of $3 200.

	Production department 1	Production department 2
Direct labour hours	80	20
Machine hours	30	100

Cuthbert wishes to achieve a profit margin of 35% on this order.

REQUIRED

(g) Calculate the price to quote for this special order.

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[4]

Additional information

The customer offered $9 000 for this order.

REQUIRED

(h) Advise Cuthbert whether or not he should accept the order. Justify your answer.

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[5]

[Total: 30]

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