Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

9802815438

ACCOUNTING **9706/22**

Paper 2 Structured Questions **February/March 2021**

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 **20** pages.

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1 Faraz, Javed and Leah were in partnership. Their agreement included the following terms:

1 Interest on drawings to be charged at 5% on total drawings for the year.

2 Interest at 12% per annum to be provided on fixed capitals.

3 Javed to receive a salary of $9000 per annum.

4 Remaining profits and losses to be shared in the ratio Faraz, Javed and Leah, 4 : 3 : 3 respectively.

The following information was available for the year ended 31 December 2020.

	Faraz $	Javed $	Leah $
Balances at 1 January 2020			
Capital accounts	80 000	60 000	50 000
Current accounts	3 400 credit	2 900 debit	1 700 debit
For the year ended 31 December 2020			
Drawings	22 400	17 200	20 200

The profit for the year ended 31 December 2020, before appropriation, was $31 500.

REQUIRED

(a) State **two** reasons why partnership agreements sometimes include a provision to charge interest on drawings.

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[2]

(b) Prepare the appropriation account for the year ended 31 December 2020.

Faraz, Javed and Leah
Appropriation account for the year ended 31 December 2020

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[5]

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[Turn over

(c) Prepare Javed's current account for the year ended 31 December 2020.

Javed
Current account

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[6]

Additional information

On 1 January 2021, Javed retired from the partnership. It was agreed that on this date:

1 Javed would keep some equipment for personal use. The equipment had a net book value of $15 400 and was to be transferred to Javed at a value of $13 000.

2 Other non-current assets were to be revalued upwards by $24 000.

3 Goodwill was valued at $50 000. A goodwill account was not to be maintained in the partnership's books.

REQUIRED

(d) Explain the meaning of goodwill.

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[2]

(e) Explain why a valuation of goodwill could be made when a partner retires.

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[2]

(f) Prepare a statement to show the amount due to Javed on his retirement from the partnership.

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[6]

Additional information

Faraz and Leah continued in partnership sharing profits and losses equally. They discussed how best to finance the amount due to Javed on his retirement from the partnership. They are considering two options.

Option 1: Take out a bank loan to cover the amount due.

Option 2: Admit a new partner whose capital contribution would cover the amount due.

REQUIRED

(g) Advise the partners which option they should choose. Justify your answer by discussing **both** options.

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[7]

[Total: 30]

2 Myra owns a delivery business. The following information is available about her business's delivery vehicles.

Vehicle	Date of purchase	Cost $
A	1 August 2017	30 000
B	1 February 2018	36 000
C	1 June 2019	39 000

Vehicles are depreciated using the straight-line method at 20% per annum. Depreciation is charged on a month-by-month basis. The business's financial year end is 31 December.

REQUIRED

(a) Calculate the balance on the provision for depreciation of vehicles account at 31 December 2019.

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[4]

Additional information

On 1 March 2020, Vehicle A was sold in part exchange for Vehicle D. Vehicle D cost $42 000 of which $29 200 was paid by cheque.

REQUIRED

(b) Prepare the vehicle disposal account.

Vehicle disposal account

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[5]

(c) Prepare the provision for depreciation of vehicles account for the year ended 31 December 2020.

Provision for depreciation of vehicles account

	$		$

[3]

Additional information

Businesses may use the revaluation method of depreciation for some of their non-current assets.

REQUIRED

(d) Explain **one** reason why some businesses may use the revaluation method of depreciation.

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[2]

(e) State how an annual depreciation charge is calculated using the revaluation method.

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[1]

[Total: 15]

3 The directors of B Limited have provided the following information.

Statement of financial position at 31 December 2020

Assets	$
Non-current assets	656 000
Current assets	
Inventory	34 000
Trade receivables	31 000
	65 000
Total assets	721 000
Equity and liabilities	
Equity	
Issued share capital	500 000
Share premium	67 000
Retained earnings	68 000
Total equity	635 000
Non-current liabilities	
8% Debenture (2025)	50 000
	50 000
Current liabilities	
Trade payables	19 000
Cash and cash equivalents	17 000
	36 000
Total liabilities	86 000
Total equity and liabilities	721 000

1 The company's revenue for the year ended 31 December 2020 was $540 000 of which 60% was on credit.

2 The company's profit for the year was $80 000.

REQUIRED

(a) Calculate the following ratios at 31 December 2020.

(i) Current ratio (to **two** decimal places)

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[1]

(ii) Trade receivables turnover (days)

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[1]

(iii) Return on capital employed (to **two** decimal places)

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[2]

Additional information

The following ratios are available for **2019** along with comparative ratios for **2018**.

	At 31 December **2019**	At 31 December **2018**
Current ratio	2.20 : 1	2.10 : 1
Trade receivables turnover	37 days	38 days
Return on capital employed	15.57%	14.32%

REQUIRED

(b) Compare the company's position at 31 December **2020** with that of the previous two years in regard to the following ratios:

(i) Current ratio

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[2]

(ii) Trade receivables turnover (days)

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[2]

(iii) Return on capital employed

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[2]

(c) State **two** ways in which a company could improve its current ratio.

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[2]

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Additional information

Companies compare their financial performance with that of different businesses.

REQUIRED

(d) State **three** limitations of comparing the financial performance of different businesses.

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3 .....

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[3]

[Total: 15]

4 K Limited produces goods at two sites and uses marginal costing.

At one site the company makes a single product. The following details are available.

Maximum capacity	14 500 units per month
Fixed costs	$216 000 per month

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Unit selling price	90
Costs per unit:	
Direct materials	25
Direct labour	36
Other variable costs	11

REQUIRED

(a) Calculate the break-even point per month in units.

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[2]

(b) Define the term 'margin of safety'.

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[2]

Additional information

The directors have decided to make the following changes:

1 Reduce selling price by 2%.

2 Introduce a sales commission of $2 per unit on every unit sold in excess of 5000 units per month.

3 Purchase direct materials in bulk and obtain a trade discount of 20%.

Buying direct materials in bulk will increase storage costs by $4000 per month.

Demand will be 98% of factory capacity.

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REQUIRED

(c) Prepare a marginal costing statement to show the monthly profit based on these changes.

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(d) Explain **two** advantages of using a system of marginal costing.

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Additional information

At its other site the company makes three products: Product X, Product Y and Product Z. The following details are available.

	Product X	Product Y	Product Z
Contribution per unit	$15	$20	$27
Machine hours per unit	1.5	2.5	3
Maximum monthly output in units	600	300	200

Fixed costs per month are $14 100.

Each month the company plans to work to full capacity producing the maximum output of each product.

In August 2021 only two-thirds of the month's machine hours will be available.

REQUIRED

(e) Calculate the machine hours available in August 2021.

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[2]

Additional information

The company has a regular order to supply one major customer with 50% of the output of each product per month.

Two options are being considered to deal with the shortage of machine hours.

Option 1: The finance director has recommended the company makes the maximum profit possible in August 2021 and if necessary not complete all of the major customer's order.

Option 2: The sales director has recommended that the company should ensure it fulfils the major customer's order.

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REQUIRED

(f) Calculate the profit or loss for August 2021 based on:

(i) Option 1

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(ii) Option 2

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(g) Advise which option the company should choose. Justify your advice by discussing **both** options. (Consider **both** financial and non-financial factors.)

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[Total: 30]

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