Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

9587070358

ACCOUNTING **9706/22**

Paper 2 Structured Questions **February/March 2022**

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. Any blank pages are indicated.

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1 Rafiq owns a retail business. When the business was opened a few years ago, Rafiq maintained only minimal accounting records.

REQUIRED

(a) State **two** reasons why the owner of a business might maintain minimal accounting records.

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[2]

(b) Identify **four** benefits of maintaining full accounting records.

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[4]

Additional information

More recently Rafiq has been able to provide more detailed financial information.

1 On 1 January 2021, the business's assets and liabilities were as follows:

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Cash in hand	840
Bank overdraft	1 390
Furniture and fittings at valuation	22 710
Trade payables	11 870
Inventory	14 430
Rent prepaid	1 250

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2 The following summary of receipts and payments for the year ended 31 December 2021 has been prepared from the business's bank statements.

Receipts	$	$
Cash sales banked	132 200	
Disposal of furniture and fittings	3 480	
Total receipts		135 680
Payments		
Drawings	18 390	
Trade payables	93 100	
Rent	14 750	
Additional furniture and fittings	8 000	
Installation costs for new fittings	380	
General expenses	5 940	
Total payments		140 560

3 Rafiq purchases all goods for resale on a credit basis.

4 All sales are on a cash basis.

5 A cash discount of 5% was received when Rafiq settled debts with trade payables during the year ended 31 December 2021.

6 At 31 December 2021 trade payables totalled $9230.

REQUIRED

(c) Calculate the total purchases for the year ended 31 December 2021.

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[3]

Additional information

During the year ended 31 December 2021:

1 Some cash takings were not banked but were used to pay wages, $21 540, and drawings, $2580.

2 Rafiq took goods costing $480 for private use.

3 Furniture and fittings with a value of $2950 were sold.

At 31 December 2021:

1 Cash takings of $1200 had not yet been banked.

2 The balance of cash in hand was $920.

3 Inventory was valued at $11 920.

4 Furniture and fittings were valued at $23 400.

5 Rent of $1440 was prepaid.

REQUIRED

(d) Prepare the income statement for the year ended 31 December 2021.

Workings:

Rafiq
Income statement for the year ended 31 December 2021

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[14]

Additional information

Rafiq would like to expand his business but requires additional finance to carry out this plan. He is considering two options.

Option 1: Invite a friend, Khaled, to become a partner in the business. Khaled would introduce capital of $10 000.

Option 2: Apply for a bank loan of $10 000.

REQUIRED

(e) Advise Rafiq which option he should choose. Justify your answer by discussing **both** financial and non-financial issues of **each** option.

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[7]

[Total: 30]

2 T Limited's statement of financial position at 28 February 2021 included the following:

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Equity	
Issued capital: ordinary shares of $0.50 each	450 000
Share premium	122 000
Retained earnings	342 000
	914 000

On 31 August 2021 the directors paid an interim dividend of $0.05 per share.

REQUIRED

(a) Calculate the amount paid as an interim dividend.

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[1]

(b) Identify **two** factors which directors should take into account when deciding the amount of a dividend payment to shareholders.

1 .....

2 .....

[2]

Additional information

On 1 December 2021, the directors made a bonus issue on the basis of two ordinary shares for every three ordinary shares currently held. The directors wished to leave the reserves in their most flexible form.

REQUIRED

(c) Prepare the journal entry to record the bonus issue of shares. A narrative is **not** required.

Journal		
	Dr	Cr
	$	$

[3]

Additional information

On 28 February 2022, the directors paid a final dividend of $0.07 per share on all ordinary shares issued at this date.

The company's profit for the year ended 28 February 2022 was $114 000.

REQUIRED

(d) Calculate the closing balance of the company's retained earnings account at 28 February 2022.

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[6]

(e) State **three** reasons why a company sometimes makes a **rights issue** of shares rather than a general issue of shares.

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[3]

[Total: 15]

3 Bipin, Feroz and Neeru have been in partnership for many years sharing profits and losses in the ratio 3 : 1 : 2 respectively.

Feroz decided to retire from the partnership with effect from 1 January 2022. On this date the statement of financial position was available.

Statement of financial position

	$	$
Assets		
Non-current assets at net book value		132 000
Current assets		
Inventory	17 560	
Trade receivables	10 540	
Cash at bank	18 490	
		46 590
Total assets		178 590
Capital and liabilities		
Capital accounts		
Bipin	72 000	
Feroz	44 300	
Neeru	57 000	
		173 300
Current accounts		
Bipin	4 240	
Feroz	(1 980)	
Neeru	(2 750)	
		(490)
Total capital		172 810
Current liabilities		
Trade payables		5 780
Total capital and liabilities		178 590

The following information is also available.

1 Non-current assets were revalued at $155 000 and inventory was revalued at $13 160.

2 Goodwill was valued at $39 000. It was agreed that a goodwill account was **not** to be maintained in the books of the partnership.

3 Bipin and Neeru agreed to remain in partnership sharing profits and losses equally.

4 On his retirement, Feroz agreed to take a non-current asset at its valuation of $15 000. He agreed to leave the remaining amount due to him as a loan to the partnership.

REQUIRED

(a) Prepare, on the **next page**, the partners' capital accounts to record the retirement of Feroz.

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Capital accounts

	Bipin $	Feroz $	Neeru $		Bipin $	Feroz $	Neeru $

[7]

Additional information

Bipin and Neeru have agreed the following for the new partnership.

1 They will no longer use current accounts. Each partner's current account balance is to be transferred to the partner's capital account.

2 The opening balances of their capital accounts are to reflect their new profit and loss sharing ratio.
Neeru was to introduce or withdraw funds in order to achieve this.

REQUIRED

(b) Calculate the amount Neeru should introduce or withdraw.

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[4]

(c) Explain **one** reason for valuing goodwill when a partner retires.

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[2]

(d) State **two** reasons why it is usual **not** to maintain a goodwill account in the books of a partnership.

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2 .....

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[2]

[Total: 15]

4 R Limited uses absorption costing at one of its factories. This factory has two production departments: Machining and Assembly, and two service departments: Support and Canteen. Some budgeted overheads have already been apportioned for April 2022. The remaining budgeted overheads for April 2022 are as follows:

	$
Depreciation of machinery	25 000
Production departments' supervisor's wages	19 800

The following additional information is available.

1

	Production departments		Service departments	
	Machining	Assembly	Support	Canteen
Floor area (m^2)	7000	2000	400	600
Power (Kwh)	4500	1800	300	900
Machinery cost ($)	850 000	110 000	15 000	25 000
Number of employees	75	35	8	7

2 The canteen provides meals for staff in the Machining, Assembly and Support departments.

3 The Support department's overheads should be reapportioned on the basis of production departments' machinery cost.

REQUIRED

(a) Complete the following table showing the apportionment of overheads and the reapportionment of service department overheads.

	Production departments		Service departments	
	Machining	Assembly	Support	Canteen
	$	$	$	$
Overheads already apportioned	106 350	28 600	7 180	13 870
Depreciation of machinery				
Production departments' supervisor's wages				
Reapportioned Canteen				
Reapportioned Support				
Total				

[5]

Additional information

	Machining	Assembly
Direct labour hours per month	3200	2400
Machine hours per month	5600	1800

REQUIRED

(b) Calculate the overhead absorption rate for **each** production department to **two** decimal places.

Machining

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Assembly

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[4]

(c) State **two** reasons why overheads may be under-absorbed.

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[2]

Additional information

At another factory a single product is made. This factory uses marginal costing.

The following information is available.

	$
Direct materials per unit	8.80
Direct labour per unit	10.10
Selling price per unit	27.00
Fixed costs per month	$44 000
Production capacity per month	15 000 units

The factory has been operating at below its normal capacity. However, recently demand for the company's product has increased considerably. The directors believe there is an opportunity to increase profits. They are considering two options to meet increased demand.

Option 1

1 Increase the selling price per unit by 5%.

2 Increase production to 16 000 units per month.

3 Overtime is paid at an additional $4.10 per unit.

4 Reduce monthly advertising by $2 000.

Option 2

1 Increase production capacity per month by 15% by purchasing additional machinery costing $78 000. This machinery will be depreciated at 20% per annum.

2 Selling price will remain at $27 per unit.

3 The supplier of materials currently offers a trade discount of 20%. This will increase to 30%.

4 The additional machinery will be more efficient and production will **not** require any overtime working.

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REQUIRED

(d) Calculate the monthly profit to be made for each option.

(i) Option 1

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[5]

(ii) Option 2

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[5]

Additional information

The cost of the additional machinery required in Option 2 would be financed by an issue of ordinary shares.

REQUIRED

(e) Advise the directors which option they should choose. Justify your answer by considering **both** financial and non-financial factors.

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[5]

(f) (i) State **two** benefits of budgetary control.

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[2]

(ii) State **two** limitations of budgetary control.

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[2]

[Total: 30]

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