Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

4527291283

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **February/March 2024**

1 hour 45 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 The following trial balance was extracted from the books of V Limited at 31 December 2023.

	$	$
8% debentures (2029)		240 000
Administrative expenses	17 200	
Bank loan		32 000
Bank loan interest	2 600	
Carriage inwards	4 500	
Carriage outwards	8 700	
Cash and cash equivalents		8 200
Distribution costs	30 700	
Dividends paid	37 500	
Furniture and equipment at carrying value, 1 January 2023	956 000	
Inventory at 1 January 2023	47 800	
Property at valuation	980 000	
Purchases	522 000	
Rental income		13 300
Retained earnings		174 000
Returns		5 100
Revenue		997 100
Share capital: 4 000 000 ordinary shares of $0.25 each		1 000 000
Share premium		215 000
Trade payables		57 800
Trade receivables	47 900	
Wages: office staff	49 300	
Wages: sales staff	38 300	
	2 742 500	2 742 500

The following information is also available.

1 At 31 December 2023 inventory was valued at $49 500.

2 Distribution costs include a prepayment of $6000.

3 At 31 December 2023, rental income of $3000 had been received in advance.

4 Provision should be made for depreciation of furniture and equipment at 20% per annum using the reducing balance method.

Depreciation charges should be allocated: 60% administrative expenses; 40% distribution costs.

5 At 31 December 2023, office wages of $5800 were due but unpaid.

6 The debentures had been issued on 1 October 2023. The first interest payment is due on 31 March 2024.

7 Tax for the year ended 31 December 2023 is estimated to be $27 900.

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(a) Prepare the statement of profit or loss for the year ended 31 December 2023. Use the space provided on **page 4** to show your workings.

V Limited
Statement of profit or loss for the year ended 31 December 2023

	$
Revenue	
Cost of sales	
Gross profit	
Other income	
Distribution costs	
Administrative expenses	
Profit from operations	
Finance costs	
Profit before tax	
Tax	
Profit for the year	

Workings:

Cost of sales
Distribution costs
Administrative expenses
Finance costs

[14]

Additional information

During the year ended 31 December 2023 the following transactions **had been** recorded in the books of account.

1 September	A rights issue had been made of one ordinary share for every three ordinary shares currently held. The issue was made at a premium of $0.05 per share. The rights issue was fully subscribed.
31 December	Property had been revalued and the value reduced by $60 000.

(b) Complete the statement of changes in equity for the year ended 31 December 2023 on **page 5**.

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Statement of changes in equity for the year ended 31 December 2023

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
Balances, 1 January 2023			60 000	174 000	
Balances, 31 December 2023	1 000 000	215 000	-		

[7]

(c) State **two** factors that directors should take into account when declaring a dividend.

1 .....

2 .....
[2]

Additional information

The directors wish to improve the company's performance. They are considering two options.

Option A: Delaying payments to credit suppliers by an extra eight days.

Option B: Switching to a new supplier who is prepared to offer a trade discount if large orders are made.

(d) Advise the directors which option they should choose. Justify your choice by considering the effect on **both** profitability and liquidity.

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[Total: 30]

2 Zainab uses the straight-line method of depreciation for business vehicles.

The non-current assets of the business include two vehicles.

Vehicle	Cost $	Date of purchase
1	26 000	1 January 2021
2	28 200	1 September 2022

Vehicles are depreciated by 20% per annum. Depreciation is calculated on a month-by-month basis in the year of purchase. No depreciation is provided in the year of disposal. The financial year ends on 31 December.

(a) Prepare the journal entry to record the depreciation charge for the year ended 31 December 2022. A narrative is **not** required.

Journal

		Dr $	Cr $

[3]

(b) Prepare the provision for depreciation – vehicles account for the year ended 31 December 2022.

Provision for depreciation – vehicles

		$			$

[3]

Additional information

On 15 February 2023 Vehicle 1 was disposed of at a profit of $4200 and the proceeds were paid into the business's bank account.

(c) Prepare the vehicle disposal account.

Vehicle disposal

		$			$

[4]

(d) State **one** reason why it may be better to use the reducing balance method of depreciation for vehicles.

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(e) Explain **two** accounting concepts which apply to depreciation.

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[4]

[Total: 15]

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3 Rahul owns a retail business. He has not maintained full accounting records. He is able to supply the following information about the financial year ended 31 January 2024.

1 Valuation of inventories

1 February 2023	31 January 2024
$21 400	$19 800

2 Rahul sells goods so as to achieve a gross profit margin of 40%.

3 The usual rate of inventory turnover is 9 times a year.

(a) Calculate the revenue for the year ended 31 January 2024.

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Additional information

Rahul has not kept a record of his cash drawings during the year ended 31 January 2024. However, the following information is available concerning cash transactions.

1 On 1 February 2023 there was cash in hand of $840.

2 Cash sales accounted for 70% of all sales.

3 Bank statements recorded total cash takings of $187 300 for the year ended 31 January 2024. However, at 31 January 2024 there were cash takings banked but not yet credited of $3800.

4 Cash was used to pay a part-time assistant's wages of $320 per week. The assistant worked for 44 weeks during the year ended 31 January 2024.

5 At 31 January 2024 cash in hand was $1830.

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(b) Calculate Rahul's cash drawings for the year ended 31 January 2024.

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Additional information

Rahul's accountant has suggested he should start keeping full accounting records and that he should use an accounting software package.

(c) State **two** ways in which Rahul will benefit from the accountant's suggestions.

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[2]

(d) Explain **two** possible reasons for not accepting the accountant's suggestions.

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[Total: 15]

4 K Limited uses absorption costing at one of its factories. The product manufactured in this factory goes through two production departments: cutting department and finishing department.

The following budgeted information was available for the year ended 31 December 2023.

	Cutting department	Finishing department
Overhead absorption rate	$3.62	$2.34
Labour hours	17 400	8 400
Machine hours	22 900	5 200

A customer placed an order for 250 units in November 2023. The following budgeted information is available about the production of one unit.

Per unit	
Direct materials	$17.28
Direct labour Cutting department Finishing department	 1.2 hours at $11.50 per hour 3.1 hours at $11.50 per hour
Machine hours Cutting department Finishing department	 2.2 hours 1.4 hours

Selling prices are set to achieve a profit margin of 40%.

(a) Prepare a statement to show the total selling price for the customer's order.

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Additional information

Actual production hours for the year ended 31 December 2023 were as follows:

	Cutting department	Finishing department
Labour hours	16 200	7 900
Machine hours	24 300	5 800

Total actual overheads were the same as budgeted overheads.

(b) Calculate the over-absorption or under-absorption of overheads for **each** production department for the year ended 31 December 2023.

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Additional information

K Limited uses marginal costing at **another** factory where a single type of product is made.

The following budgeted information is available.

	$ per unit
Selling price	42
Direct materials	12
Direct labour (1.5 hours per unit)	18
Other variable costs	3

Fixed costs per month are $38 500.

Currently the factory is producing 9920 units per month.

(c) Calculate both the **total** monthly contribution and the **total** monthly profit currently being made in this factory.

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Additional information

The directors hope to increase demand by changing the selling price. They are considering the following two options.

Option A

1 Reduce the selling price per unit by 5%.

2 Increase production by 4000 units on the current production level.

3 A commission of $0.25 per unit will be paid.

4 Overtime will be required on all units produced over 12400 units and is paid at a premium of 25%.

5 Cancel the current advertising campaign costing $8000 a month.

Option B

1 Reduce the selling price per unit to $41.

2 Increase production by 10% on the current production level.

3 Invest in more up-to-date machinery at a cost of $180000.

4 It is proposed to partly finance the purchase of new machinery by borrowing $150000 at 8% per annum interest.

5 Machinery is depreciated by 25% per annum on cost.

6 As a result of improvements to machinery, the time each worker takes to produce one unit will be reduced by 8% and a higher quality product can be made.

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(d) Prepare marginal costing statements to show the monthly forecast profit, rounded to the **nearest** dollar, for **each** option.

(i) Option A

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(ii) Option B

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

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[Total: 30]

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