Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

3631265238

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 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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[Turn over

1 N Limited is a trading business. Sales are made on the credit basis only.

The following information was available at 31 December 2020.

	Debit	Credit
	$000	$000
8% Debentures (2025)		250
Administrative expenses	171	
Cash and cash equivalents	14	
Cost of sales	466	
Debenture interest	8	
Distribution costs	63	
Dividends paid	80	
Inventory at 31 December 2020	33	
Issued capital:		
Ordinary shares of $0.25 each at 31 December 2020		500
Non-current assets		
Cost	1140	
Provision for depreciation at 1 January 2020		140
Retained earnings at 1 January 2020		129
Revenue		923
Share premium at 31 December 2020		70
Trade payables		42
Trade receivables	79	
	2054	2054

The following information is also available at 31 December 2020.

1 Administrative expenses included insurance of $16 000 for four months ended 31 January 2021.

2 Depreciation should be provided on non-current assets at 25% per annum using the reducing balance method. Depreciation charges should be allocated 20% to distribution costs and 80% to administrative expenses.

3 The account of a credit customer, $3000, should be written off to administrative expenses as an irrecoverable debt.

4 Debenture interest was outstanding for the second half of the year. The directors had issued additional debentures of $50 000 on 1 October 2020.

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REQUIRED

(a) Prepare the company's income statement for the year ended 31 December 2020.

N Limited
Income statement for the year ended 31 December 2020

	$000

Workings:

Distribution costs
Administrative expenses
Finance costs

[10]

Additional information

On 1 July 2020 the directors had decided to make a rights issue of two ordinary shares for every three shares held at a price of $0.30 per share. The rights issue was fully subscribed.

REQUIRED

(b) Explain **two** reasons why a company may make a rights issue of shares rather than an issue of debentures.

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[4]

(c) Calculate the amount raised by the rights issue.

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(d) Prepare a statement of changes in equity for the year ended 31 December 2020.

N Limited
Statement of changes in equity
for the year ended 31 December 2020

	Ordinary share capital $000	Share premium $000	Retained earnings $000	Total $000
Balance at 1 January 2020				

[5]

Additional information

The directors are concerned about the company's credit control and wish to improve the company's liquidity position. They are considering a proposal to offer a 5% cash discount to customers for settlement within 30 days on all invoices of more than $2000.

REQUIRED

(e) Identify **two** ratios which can be used to assess the liquidity of a business.

1 .....

2 .....

[2]

(f) Advise the directors whether or not they should go ahead with this proposal. Justify your answer.

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..... [5]

[Total: 30]

2 Zak owns a wholesale business. He makes sales on credit.

REQUIRED

(a) Explain why it may be important for a business to maintain a provision for doubtful debts.

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..... [2]

Additional information

Zak has prepared an aged schedule of trade receivables at 31 December 2020.

Period outstanding	Amount $	Estimated irrecoverable debts
Less than 1 month	34 200	1%
Between 1 month and 3 months	6 680	5%
Between 4 and 6 months	2 130	10%

In addition, two accounts had been outstanding for over 6 months.

	$
P Limited	340
Q Limited	510

Zak's policy is to write off as irrecoverable any amounts outstanding for more than 6 months. Zak updates the provision for doubtful debts at each financial year end based on the estimated percentage of irrecoverable debts.

REQUIRED

(b) Prepare a journal entry to write off the irrecoverable debts. A narrative is **not** required.

Journal

	Dr	Cr
	$	$

[2]

(c) State **two** ways in which the risk of irrecoverable debts may be reduced.

1 .....

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2 .....

..... [2]

Additional information

At 1 January 2020 the business had a provision for doubtful debts of $980.

REQUIRED

(d) Calculate the adjustment required to the provision for doubtful debts at 31 December 2020.

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..... [4]

(e) Prepare the provision for doubtful debts account for the year ended 31 December 2020.

Provision for doubtful debts account

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[3]

(f) State **two** factors that should be taken into account when setting a provision for doubtful debts.

1 .....

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2 .....

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[2]

[Total: 15]

3 Jason prepared the following statement of financial position which contained errors.

Statement of financial position at 31 December 2020

	$	$
Non-current assets		
Cost	65 000	
Provision for depreciation	31 000	
		34 000
Current assets		
Inventory	17 390	
Trade receivables	14 800	
Other payables	700	
Bank overdraft	490	
		33 380
		67 380
Capital		
Opening balance	56 950	
Profit for the year	11 270	
Drawings	(18 450)	
		49 770
Non-current liabilities		
Bank loan (repayable March 2021)		4 900
Current liabilities		
Provision for doubtful debts	480	
Other receivables	490	
Trade payables	11 360	
		12 330
		67 000

In addition to some items being recorded in the incorrect sections of the statement of financial position, the following errors have also been discovered.

1 Closing inventory had been overvalued by $510.

2 The balance of the rent receivable account, debit $220, had been included in other payables in the statement of financial position.

3 Depreciation at 20% per annum had been charged using the straight-line method instead of the reducing balance method at 20% per annum.

4 The balance of the drawings account had been understated by $580.

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REQUIRED

(a) Calculate the revised profit for the year ended 31 December 2020.

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(b) Prepare the corrected statement of financial position at 31 December 2020.

Corrected statement of financial position at 31 December 2020

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[7]

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(c) Identify **three** types of error which do not affect the balancing of the trial balance.

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2 .....

3 .....

[3]

[Total: 15]

4 T Limited manufactures goods at two factories: Factory A and Factory B.

Factory A

Factory A has two production departments, Assembly and Finishing; and two service departments, Administration and Canteen.

Absorption costing is used at this factory.

Budgeted overheads for February 2021 have already been apportioned.

The basis for reapportioning the service department overheads is as follows:

	Production departments		Service departments	
	Assembly	Finishing	Administration	Canteen
Canteen	50%	40%	10%	-
Administration	75%	25%	-	-

REQUIRED

(a) Prepare a statement showing the reapportionment of service department overheads for February 2021.

	Production departments		Service departments	
	Assembly	Finishing	Administration	Canteen
	$	$	$	$
Overheads	83 500	70 100	28 300	15 400
Reapportionment of canteen				
Subtotal				
Reapportionment of administration				
Total overheads				

[4]

Additional information

	Assembly	Finishing
Direct labour hours per month	1700	1400
Machine hours per month	2800	900
Direct labour rate per hour	$8.40	$8.20

REQUIRED

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

Assembly department

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Finishing department

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[4]

Additional information

The company received an order from a customer. The following details are available:

Direct materials	$1880
Direct labour:	
Assembly department	11.5 hours
Finishing department	6.1 hours
Machine hours:	
Assembly department	5.7 hours
Finishing department	2.4 hours

The company's policy is to achieve a profit of 40% on selling price.

REQUIRED

(c) Prepare a statement to show the total selling price that T Limited will quote to the customer.

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(d) State **two** possible causes of under absorption of overheads.

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[2]

(e) State what is meant by

(i) allocation of overheads

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..... [1]

(ii) apportionment of overheads

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Additional information

Factory B

T Limited manufactures a single product in Factory B.

Marginal costing is used at this factory.

The following information is available for December 2020 when production was 9000 units which included 1000 units produced using overtime.

	$
Direct materials	72 000
Direct labour	74 000
Other variable costs	22 500
Fixed costs	65 000
Total costs	233 500

Direct labour overtime is paid at 1.25 times the normal rate.

All production was sold at $30 per unit.

The directors have been considering changing the supplier of materials. The following information is available.

1 An overseas supplier is prepared to become the company's sole supplier of materials at $5.50 per unit including delivery costs.

2 The supplier can only provide sufficient materials for the company to make 7600 units per month.

3 The directors do not expect any other costs or the unit selling price to change. All production will be sold.

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REQUIRED

(f) Calculate the maximum profit per month that can be made if materials were obtained from the overseas supplier and production limited to 7600 units.

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(g) Advise the directors whether or not they should change the supplier. Justify your advice by considering **both** financial and non-financial factors.

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[Total: 30]

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