Cambridge Assessment International Education

# Cambridge International AS & A Level

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| CANDIDATE NAME | | | | | | | | | |
| CENTRE NUMBER | | | | | | CANDIDATE NUMBER | | | | |

*4603432733*

**ACCOUNTING** **9706/21**

Paper 2 Structured Questions **May/June 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** Khin is a retailer.

The following balances have been extracted from his books of account at 31 January 2022.

| | $ |
|---|---|
| Advertising | 4 900 |
| Carriage inwards | 2 140 |
| Carriage outwards | 1 730 |
| Furniture and equipment at cost | 18 900 |
| Furniture and equipment provision for depreciation at 1 February 2021 | 7 300 |
| General expenses | 13 450 |
| Inventory at 1 February 2021 | 12 310 |
| Irrecoverable debts | 670 |
| Loss on disposal of delivery vehicle | 1 350 |
| Premises at cost | 360 000 |
| Premises provision for depreciation at 1 February 2021 | 21 600 |
| Provision for doubtful debts at 1 February 2021 | 840 |
| Purchases | 118 220 |
| Rent receivable | 7 000 |
| Revenue | 197 300 |
| Trade receivables | 15 580 |
| Wages and salaries | 34 640 |

The following information is also available at 31 January 2022.

1 Closing inventory was valued at $13 480.

2 No record had been made of goods taken for own use by Khin, $910.

3 An irrecoverable debt of $380 is to be written off.

4 The provision for doubtful debts is to be maintained at 5% of trade receivables.

5 Advertising includes a payment of $3250 for a campaign which will last from 1 December 2021 to 30 April 2022.

6 Rent receivable is $500 per month.

7 Wages, $1440, are outstanding.

8 Khin sold his business's only delivery vehicle in January 2022 resulting in the loss of $1350 shown in the balances at 31 January 2022.

9 The business's depreciation policy is as follows:

i Premises to be depreciated by 2% per annum using the straight-line method.
ii Furniture and equipment to be depreciated by 15% using the reducing balance method.

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**REQUIRED**

**(a)** Prepare the income statement for the year ended 31 January 2022. Use the space provided on **page 4** for your workings.

Khin
Income statement for the year ended 31 January 2022

Workings:

[15]

**Additional information**

There was no opening balance on the rent receivable account at 1 February 2021.

**REQUIRED**

**(b)** Prepare the rent receivable account for the year ended 31 January 2022.

Rent receivable account

| | $ | | $ |
|---|---|---|---|
| | | | |
| | | | |
| | | | |
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| | | | |

[2]

**(c)** Prepare a journal entry to record the adjustment to the provision for doubtful debts account at 31 January 2022. A narrative is **not** required.

Journal

| | Dr<br>$ | Cr<br>$ |
|---|---|---|
| | | |
| | | |
| | | |

[2]

**Additional information**

Khin intends to purchase a new delivery vehicle. He is not sure whether the delivery vehicle should be depreciated using the straight-line method or reducing balance method of depreciation.

**REQUIRED**

**(d)** Explain the reason for recording depreciation in a business's income statement.

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**(e)** State **one** benefit of using each of the following methods of depreciation.

**(i)** Straight-line

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..... [1]

**(ii)** Reducing balance

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..... [1]

**Additional information**

Khin is concerned about a decline in the business's profitability. He is considering two options.

Option 1: decrease the amount spent on advertising whilst also reducing the selling price by a small amount.

Option 2: purchase goods from cheaper suppliers.

**REQUIRED**

**(f)** Advise Khin which option he should choose. Justify your advice by discussing **both** options.

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[Total: 30]

**2** Yasmin is a sole trader. She has prepared a trial balance. Some errors are not revealed by a trial balance.

**REQUIRED**

**(a)** Describe **each** of the following errors. Examples are **not** required.

**(i)** Error of commission

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**(ii)** Error of original entry

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**(iii)** Error of principle

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**Additional information**

When Yasmin prepared a trial balance for her business at the year-end, 31 December 2021, the totals did not agree. The difference was entered in a suspense account.

The following errors were discovered which accounted for the difference.

1 Goods for own use, $430, had been debited to the drawings account but no other entry had been made.

2 Returns inwards of $740 had been credited to the returns outwards account.

3 An irrecoverable debt of $260 had been correctly recorded in the journal and in the account of the customer, but had been posted to the wrong side of the irrecoverable debts account.

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**REQUIRED**

**(b)** Prepare the suspense account clearly identifying the original difference in the trial balance totals.

Suspense account

| | $ | | $ |
|---|---|---|---|
| | | | |
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[5]

**Additional information**

The business's draft profit before correcting the errors was $28 750 for the year ended 31 December 2021.

**REQUIRED**

**(c)** Complete the following table to calculate the corrected profit for the year ended 31 December 2021.

| | $ |
|---|---|
| Draft profit | 28 750 |
| Error 1 | |
| Error 2 | |
| Error 3 | |
| Corrected profit | |

[4]

[Total: 15]

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**PLEASE TURN OVER**

**3** Maria and Rio have been in partnership for a number of years. They are considering admitting a new partner.

**REQUIRED**

**(a)** State **three** disadvantages to the existing partners when a new partner is admitted.

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[3]

**Additional information**

The partnership year end is 31 December. For the period 1 January to 30 September 2021, Maria and Rio did not have a partnership agreement.

The following information is available for the year ended 31 December 2021.

The balances on the partners' accounts on 1 January 2021 were:

| | $ |
|---|---|
| Capital accounts | |
| Maria | 52 000 |
| Rio | 38 000 |
| Loan account: Rio | 6 000 |

On 1 October 2021 they admitted Sarah as a partner. Sarah introduced capital of $45 000 from her personal savings. The partners agreed to make no adjustments for goodwill or the revaluation of the partnership assets.

From 1 October 2021 a formal partnership agreement was prepared as follows:

1 Rio to be given interest on his loan at 8% per annum.

2 Interest to be given at 6% per annum on fixed capitals.

3 Rio to be given a partnership salary of $15 000 per annum.

4 Profits to be shared in the ratio Maria : Rio : Sarah, 2 : 1 : 2 respectively.

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During the year ended 31 December 2021, the partnership made a profit of $82 500 before taking into account interest on Rio's loan. It was assumed that the profit before interest on Rio's loan had accrued evenly throughout the year.

**REQUIRED**

**(b)** Prepare the appropriation account for the year ended 31 December 2021.

Maria, Rio and Sarah
Appropriation account for the year ended 31 December 2021

| | Maria and Rio 1 Jan–30 Sept $ | Maria, Rio and Sarah 1 Oct–31 Dec $ |
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**Additional information**

Before Sarah had been admitted as a partner, she had been earning a salary of $18 000 per annum. She had also received interest of 8% per annum on her personal savings.

**REQUIRED**

**(c)** Compare Sarah's income as a partner with the total income she would have otherwise received in the three months ended 31 December 2021. Support your answer with calculations.

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[Total: 15]

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**PLEASE TURN OVER**

**4** N Limited manufactures a single product at one of its factories. The company uses marginal costing.

**REQUIRED**

**(a)** State **two** benefits of using break-even analysis.

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2 .....

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[2]

**(b)** Define the term 'fixed costs'.

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**Additional information**

The following details are available for one month's production:

| | |
|---|---|
| Fixed costs | $70 000 |
| Break-even point | 8 000 units |
| Selling price per unit | $20 |
| Margin of safety | $80 000 |

**REQUIRED**

**(c)** Calculate the variable cost per unit.

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..... [3]

**Additional information**

The directors have decided to increase output by 20%. All the output can be sold.

New machinery will be purchased at a cost of $72 000. The new machinery will have a useful life of 5 years. The directors also plan the following:

1 Variable costs will remain unchanged.

2 Selling prices will be reduced by 5% to ensure that all production can be sold.

3 The cost of the new machinery will be financed by the issue of 10% debentures.

**REQUIRED**

**(d) (i)** Calculate the monthly revenue based on this plan.

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**(ii)** Prepare a budgeted marginal costing statement for one month based on this plan for total production.

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**Additional information**

At another factory the company manufactures two products: X and Y. Both products use the same material.

The following information is available for one month's output.

| | X | Y |
|---|---|---|
| | $ | $ |
| Selling price per unit | 32 | 44 |
| Direct material per unit | 10 | 14 |
| Direct labour per unit | 12 | 19 |
| Output | 5000 units | 4000 units |

This factory's fixed costs are $58 000 per month.

In April 2022 the supplier of direct materials informed the company that it would only be able to supply 75% of the normal monthly requirement in June 2022.

**REQUIRED**

**(e)** Prepare a budgeted production plan for June 2022 to show the maximum profit available.

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**Additional information**

A director has suggested an alternative plan that the factory should produce extra units in May 2022 to make up for the shortfall of either Product X or Product Y in June 2022. Any additional production will require overtime to be worked.

The following information is available:

1 All material requirements can be met in May 2022 but the material has to be converted into finished product immediately as purchased.

2 Overtime is paid at 1.5 times the normal rate.

3 The extra units will be stored at a cost of $4000.

**REQUIRED**

**(f)** Calculate the profit or loss to be made on the extra units if this plan is implemented in May 2022.

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**(g)** Advise the directors whether they should use the original budgeted production plan in **(e)** or whether they should increase production in May 2022 as suggested by the director in his alternative plan. Justify your advice.

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[Total: 30]

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