Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

3560107937

ACCOUNTING **9706/21**

Paper 2 Fundamentals of Accounting **May/June 2023**

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 Mima is the owner of a wholesale business, Mima Supplies.

During the year ended 31 December 2022 the business owned the following delivery vehicles.

	Date of purchase	Cost
		$
Vehicle A	1 January 2019	28 000
Vehicle B	1 January 2020	30 000
Vehicle C	1 July 2022	32 000

Delivery vehicles are depreciated at 25% per annum using the straight-line method on a month-by-month basis. No depreciation is provided in the year of sale.

Vehicle A was sold for $5200 on 30 June 2022.

REQUIRED

(a) Calculate the profit or loss on the disposal of Vehicle A.

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(b) Calculate the total depreciation charge on delivery vehicles for the year ended 31 December 2022.

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Additional information

Mima has also supplied the following information for the year ended 31 December 2022.

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	$
Advertising	6 580
Allowance for irrecoverable debts at 1 January 2022	1 390
Cost of sales	483 900
Furniture and equipment at 1 January 2022	
Cost	36 800
Provision for depreciation	18 200
Insurance	7 380
Interest receivable	1 200
Rent of warehouse	33 480
Returns inwards	4 420
Revenue	726 310
Vehicle running costs	8 580
Wages	63 480

2 Advertising includes the cost of a six-month campaign, $4200, which began on 1 September 2022.

3 The value of inventory at 31 December 2022 was understated by $4940 when calculating the cost of sales of $483 900.

4 Six months' interest at 10% per annum was received on a bank deposit of $24 000. The deposit was made on 1 March 2022. The next receipt of interest took place on 28 February 2023.

5 The allowance for irrecoverable debts is to be maintained at 5% of trade receivables. At 31 December 2022, trade receivables totalled $31 300.

6 Depreciation is to be provided on furniture and equipment at 15% per annum using the reducing balance method of depreciation.

7 Wages, $1620, were accrued at 31 December 2022.

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REQUIRED

(c) Prepare the statement of profit or loss for the year ended 31 December 2022. Use the space provided on the **next page** to show your workings.

Mima Supplies
Statement of profit or loss for the year ended 31 December 2022

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Workings:

[13]

(d) Explain the importance of making an allowance for irrecoverable debts in a business's financial statements.

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..... [2]

Additional information

Mima would like to assess her business's liquidity position at 31 December 2022.

REQUIRED

(e) Identify **two** ratios which could be used to assess a business's liquidity position.

1 .....

2 .....

[2]

Additional information

Mima has noticed that her business's rate of inventory turnover has decreased since last year. She is considering two options to increase the rate of inventory turnover.

Option A: reduce inventory levels.

Option B: reduce selling prices by 2% and increase the annual advertising budget by 5%.

REQUIRED

(f) Advise Mima which option she should choose. Justify your choice by considering **both** options.

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[Total: 30]

2 Param uses control accounts to verify the accuracy of his business's sales and purchases ledgers.

He provided the following information for the month ended 30 April 2023 relating to trade receivables.

	$
Sales ledger balances, 1 April 2023	
Debit	14 890
Credit	610
Contra entries with the purchases ledger	1 850
Credit sales	153 480
Credit customers' cheques returned	880
Discounts allowed	4 830
Interest charged on overdue accounts	540
Irrecoverable debts written off	1 830
Receipts from credit customers	148 200
Returns inwards	2 790

There were no credit balances in the sales ledger on 30 April 2023.

REQUIRED

(a) Prepare the sales ledger control account for April 2023. Dates are **not** required.

Sales ledger control account

	$		$

[6]

(b) Identify the books of prime entry for **each** of the following:

(i) discounts allowed

..... [1]

(ii) irrecoverable debts written off.

..... [1]

(c) State **three** benefits of maintaining control accounts.

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[3]

Additional information

The balance of the sales ledger control account at 30 April 2023 did not agree with the total of the individual customer account balances at this date.

The following errors were discovered, some of which affected the sales ledger control account and some of which affected the customer account balances.

1 Returns inwards of $720 had been credited to the account of Rafiq Stores instead of Raif Stores.

2 A sales invoice for $820 had been omitted from the books of account.

3 The balance of a credit customer's account, $430, had been brought down as $340.

4 The total of the returns inwards journal had been understated by $470.

5 Interest of $40 charged on an overdue account had been correctly entered in the journal but had been credited to the customer's account.

REQUIRED

(d) Calculate the revised sales ledger control account balance at 30 April 2023.

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[Total: 15]

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3 The following extract from J Limited's statement of financial position at 1 January 2022 is available.

	$
Equity	
Issued capital: ordinary shares of $0.25 each	600 000
Share premium	175 000
Retained earnings	54 000
Total equity	829 000
Non-current liabilities	
7% Debentures (2028)	200 000

REQUIRED

(a) State **two** features of revenue reserves which do **not** apply to capital reserves.

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[2]

Additional information

The directors wished to raise additional finance. On 1 April 2022 the company made a rights issue of 2 ordinary shares for every 3 shares held at a price of $0.35 per share. The issue was fully subscribed.

REQUIRED

(b) Calculate the amount raised by the rights issue of shares.

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Additional information

The directors had considered making an issue of debentures rather than a rights issue.

(c) Identify **two** reasons why the directors of J Limited might prefer to raise additional finance through a rights issue rather than by issuing debentures.

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[2]

Additional information

The directors paid an interim dividend of $0.12 per share on 1 July 2022.

REQUIRED

(d) Calculate the **total** amount of the interim dividend.

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Additional information

The company made a profit of $535 000 for the year ended 31 December 2022.

REQUIRED

(e) Prepare the statement of changes in equity for the year ended 31 December 2022.

J Limited
Statement of changes in equity at 31 December 2022

	Share capital $	Share premium $	Retained earnings $	Total $

[6]

[Total: 15]

4 D Limited has two production departments and two service departments at one of its factories where absorption costing is used. Some forecast factory overheads have already been allocated and apportioned as follows:

	Production departments		Service departments	
	Cutting $	Assembly $	Maintenance $	Canteen $
Factory overheads	223 480	217 980	45 270	36 260

The following forecast factory overheads are still to be apportioned.

	$
Depreciation of machinery	48 000
Power	40 200

Canteen department overheads should be reapportioned on the basis of the number of employees. Maintenance department overheads should be reapportioned on the basis of the number of machines in production departments.

The following data is available.

	Production departments		Service departments	
	Cutting	Assembly	Maintenance	Canteen
Machinery at carrying value	$90 000	$66 000	$18 000	$6 000
Number of machines	43	27		
Kilowatt hours	1 800	1 500	100	200
Number of employees	27	18	5	
Budgeted machine hours	40 000	33 500		
Budgeted direct labour hours	23 000	62 500		

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[Turn over

REQUIRED

(a) Complete the following table to show the apportionment of factory overheads and the reapportionment of service department overheads.

	Production departments		Service departments	
	Cutting	Assembly	Maintenance	Canteen
	$	$	$	$
Factory overheads	223480	217980	45270	36260
Depreciation of machinery				
Power				
Total overheads				
Reapportionment				
Subtotal				
Reapportionment				
Total overheads				

[5]

(b) Calculate, to **two** decimal places, an overhead absorption rate for **each** production department, using a suitable basis.

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Additional information

The following information is available.

	Cutting department	Assembly department
Direct labour rate per hour	$10.90	$8.20
Machine hours per unit	8	6
Labour hours per unit	3	4

Direct materials cost $6.95 per unit.

Selling prices are set to achieve a profit margin of 25%.

A customer has placed an order for 40 units.

REQUIRED

(c) Calculate the selling price to be quoted for this order of 40 units.

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

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Additional information

At the other factory a single product, Product Exe, is currently being made. Marginal costing is used at this factory.

The following information is available.

Selling price per unit	$48
Contribution per unit	$13
Direct labour	2.5 hours per unit at $10 per hour
Fixed costs	$96 000 per annum
Factory capacity	28 000 labour hours per year
Current production level	80% of factory capacity

All units produced are sold.

REQUIRED

(e) Calculate the profit made each year from Product Exe.

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Additional information

The directors plan to make a new product, Product Wye, at this factory at the request of an important customer. The following details are available.

1 The factory will be able to operate at full capacity.

2 All units produced will be sold.

3 Product Wye will have a selling price of $64 per unit and a contribution of $8 per unit.

4 Product Wye will require direct labour at $10 per hour for 1.5 hours per unit.

5 The customer requires 10 000 units of Product Wye each year. The customer will **only** accept this quantity each year.

6 In order to complete the customer's order, production of Product Exe will be reduced.

7 Some new machinery will be required costing $36 000. Machinery is depreciated by 20% per annum.

8 A loan of $20 000 at 5% per annum interest will be required to finance the purchase of the new machinery.

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[Turn over

REQUIRED

(f) Calculate the **total** profit from both products which will be made in the first year if this plan is put into operation.

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(g) Advise the directors whether this plan should be put into operation. Justify your answer by considering **both** financial and non-financial factors.

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[Total: 30]

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