Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

4947210084

ACCOUNTING **9706/23**

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 **16** pages.

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1 Hamza owns a retail business with a financial year end of 31 December.

On 31 December 2022 inventory was valued at $15 330. However, this figure included 30 damaged items which had a cost price of $32 each. Of the damaged items, 23 will be scrapped with no value. The remaining 7 items will require repairs costing a total of $126 before being sold at the normal price of $48 each.

REQUIRED

(a) Explain, with reference to an accounting concept, how damaged inventory should be valued.

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..... [2]

(b) Calculate the corrected valuation of inventory at 31 December 2022.

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..... [4]

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Additional information

The following information has been extracted from the books of account at 31 December 2022.

	Dr	Cr
	$	$
Administrative expenses	14 380	
Carriage inwards	1 720	
Carriage outwards	3 860	
Discounts	840	620
Furniture and equipment		
Cost	36 000	
Provision for depreciation		11 800
Inventory at 1 January 2022	16 780	
Insurance	4 320	
Purchases	182 770	
Rent payable	17 000	
Returns	5 460	4 810
Revenue		299 490
Trade receivables	18 460	
Wages	37 330	

At 31 December 2022:

1 No record had been made of goods taken by the owner for his own use, cost $550.

2 The balance of $760 on a credit customer's account is to be written off as irrecoverable.

3 An allowance for irrecoverable debts of 5% is to be created based on the amount outstanding from credit customers.

4 Rent of $5100 is paid at the end of every three months. Rent for the three months ending 31 January 2023 is accrued.

5 The policy is to depreciate furniture and equipment by 20% per annum using the straight-line method on a month-by-month basis. However, the furniture and equipment account includes equipment purchased during the year that cost $6500 and on which depreciation of $650 has not yet been charged.

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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 **page 5** for your workings.

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

	$	$
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Workings:

[15]

(d) State the double entry required to record goods withdrawn by an owner for personal use.

Debit: .....

Credit: .....

[2]

Additional information

Hamza is concerned that the performance of the business has declined in recent months. He is considering two options to increase the gross profit of the business.

Option A: Purchase goods from a different supplier who is prepared to offer a large trade discount. Hamza would need to order in bulk, but less frequently than now.

Option B: Increase selling prices and increase monthly expenditure on advertising.

REQUIRED

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

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..... [7]

[Total: 30]

2 Veda owns a retail business. Her accountant advised her to prepare a trial balance.

REQUIRED

(a) State **two** benefits of preparing a trial balance.

1 .....

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2 .....

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[2]

Additional information

On 31 March 2023 Veda prepared a trial balance but the totals did not agree. The debit column totalled $84 050 and the credit column totalled $83 350. The difference was posted to a suspense account.

The following errors were identified and corrected after which the trial balance totals agreed.

1 A payment of $740 to Opal Stores was recorded in the account of Opal Wholesale.

2 Sales returns of $340 from Kali had been correctly recorded in the sales returns journal, but $430 had been posted to the debit side of Kali's account.

3 The discount columns in the cash book had not been posted to the general ledger. Discounts allowed totalled $530 and discounts received totalled $370.

4 A cheque for $560 received from W Limited had been dishonoured. The dishonoured cheque was entered correctly in the cash book but had been posted as $650 to the customer's account.

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REQUIRED

(b) Prepare journal entries to correct **each** of the errors. Dates and narratives are **not** required.

Journal

Account	Dr $	Cr $

[7]

(c) Prepare the suspense account at 31 March 2023. Dates are **not** required.

Suspense account

	$		$

[4]

(d) Define the term 'error of principle'.

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..... [2]

[Total: 15]

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3 On 1 January 2022 the directors of J Limited made a bonus issue of two ordinary shares for every three ordinary shares held. The following is an extract from the company's statement of financial position immediately **after** the bonus issue.

Equity	$
Ordinary shares of $0.50 each	1 000 000
Retained earnings	120 000
Total equity	1 120 000

The directors financed the issue 60% from the share premium account and the remainder from retained earnings.

REQUIRED

(a) Prepare an extract from the statement of financial position immediately **before** the bonus issue, showing the equity section.

Equity	$
Ordinary shares of $0.50 each	
Share premium	
Retained earnings	
Total equity	

Workings:

[5]

Additional information

J Limited's financial year ends on 31 March. On 31 March 2021 the directors paid an annual ordinary share dividend of 20%. However, on 31 March 2022 the directors decided that the annual ordinary share dividend would amount to $0.05 per share.

Hassan is a shareholder in the company. He owned 7200 shares before the bonus issue on 1 January 2022.

REQUIRED

(b) Calculate the change in the amount of dividend received by Hassan, comparing the dividend at 31 March 2022 with the dividend at 31 March 2021.

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..... [5]

(c) State **two** differences between capital reserves and revenue reserves.

1 .....

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2 .....

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[2]

(d) State **three** reasons why the directors of a company might reduce the total dividends payable.

1 .....

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2 .....

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3 .....

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[3]

[Total: 15]

4 V Limited is a manufacturing company which uses marginal costing.

REQUIRED

(a) Define:

marginal cost

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contribution

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break-even point.

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..... [3]

Additional information

The following information is available for a single type of product made at one of the company's factories.

Per unit	$
Selling price	52
Direct materials	16
Direct labour	18

Fixed costs per month are $36 900. Maximum output per month is 2500 units. The factory operates at full capacity.

REQUIRED

(b) Calculate the break-even point:

(i) in units

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..... [2]

(ii) in sales value.

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..... [1]

Additional information

The directors plan to increase factory capacity to meet increased demand. The following details are available.

1 Factory capacity will be increased by 15%.

2 Additional machinery will be required at a cost of $72 000.

3 Machinery is depreciated at 20% per annum on cost.

4 The directors will apply for a bank loan of $60 000 at 8% per annum interest to finance the cost of the additional machinery.

5 Direct materials will cost less per unit as a result of buying in greater bulk. Suppliers currently give a 20% trade discount but will give a 25% trade discount in future.

6 Direct labour costs and selling price will remain unchanged.

REQUIRED

(c) Calculate the increase in the **monthly** margin of safety **in units**, assuming all production is sold.

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..... [7]

Additional information

V Limited produces a different single type of product at **another** factory.

The following details are available:

Selling price per unit	$26
Contribution per unit	$8
Fixed costs per month	$52 000
Factory capacity per month	18 000 units

Currently the factory is operating at 85% capacity. All products are sold to regular customers.

The directors are considering accepting an order from a new customer. The following details are available:

1 The order is for 4200 units per month.

2 The customer is considering making a regular order for this quantity.

3 The customer wishes the product to be packaged differently. This will add $0.50 per unit to variable costs and will require investment in new machinery, adding $1000 per month to fixed costs.

4 The customer has offered to pay $24 per unit.

The directors are considering two options.

Option A: Reject the order from the new customer.

Option B: Accept the order from the new customer, operate the factory at full capacity and reduce the number of units supplied to regular customers.

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REQUIRED

(d) Calculate the profit per month to be made under each option.

(i) Option A

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..... [1]

(ii) Option B

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

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(f) Explain **two** advantages to a business of using absorption costing.

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[4]

[Total: 30]

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