* 0019655310701 *

Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

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* 9 0 7 4 6 9 0 6 2 1 *

ACCOUNTING **9706/23**

Paper 2 Fundamentals of Accounting **May/June 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 **16** pages.

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[Turn over

1 K Limited provided the following extract from the company's draft statement of profit or loss for the year ended 31 December 2023.

	$
Revenue	870 500
Cost of sales	(493 000)
Gross profit	377 500

It has now been discovered that adjustments are required for the following:

1 Opening inventory at 1 January 2023 had been understated by $14 000.

2 Sales returns, $8600, had been deducted from purchases.

3 Closing inventory at 31 December 2023 included 40 damaged items costing $30 each. It is estimated that after repairs, costing a total of $420, the items could be sold for $38 each.

(a) Explain the accounting concept which is applied to the valuation of damaged inventory.

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(b) Calculate the revised gross profit for the year ended 31 December 2023.

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Workings:

[5]

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Additional information

1 At 1 January 2023

	$
6% Debentures (2024)	300 000
Property at valuation	840 000
Plant and equipment	
Cost	160 000
Provision for depreciation	32 000
Retained earnings	132 000
Revaluation reserve	90 000
Share capital: ordinary shares of $0.50 each	900 000
Share premium	55 000

2 During the year ended 31 December 2023 the following payments had been made.

	$
Administrative expenses	111 400
Debenture interest	9 000
Distribution costs	97 100
Dividends	45 000
Equipment (purchased 1 April 2023)	20 000

3 Plant and equipment is depreciated by 20% per annum using the straight-line method on a month-by-month basis.

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

4 Distribution costs includes the cost of a five-month advertising campaign, $22 000, which will end on 31 March 2024.

5 Debenture interest is outstanding at 31 December 2023. The debentures had been issued in 2021.

6 Tax for the year ended 31 December 2023 is estimated to be $11 300.

7 On 1 March 2023 property was revalued at $720 000.

8 On 1 May 2023 a rights issue of shares was made. Shareholders were offered three ordinary shares for every five ordinary shares held at 1 January 2023. The shares were issued at a premium of $0.20 per share. The rights issue was fully subscribed.

9 Trade payables totalled $38 000 on 31 December 2023.

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(c) Prepare the statement of profit or loss for the year ended 31 December 2023. Start the statement with the revised figure for gross profit from **(b)**. Use the space provided on **page 5** to show your workings.

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

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Gross profit	.....

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Workings:

Depreciation of plant and equipment
Distribution costs
Administrative expenses
Finance charges

[8]

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(d) Prepare an extract from the statement of financial position at 31 December 2023 to show the equity and liabilities section **only**.

Statement of financial position at 31 December 2023 (Extract)

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Equity and liabilities

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Workings:

[8]

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Additional information

The directors are planning to expand the business in 2024. The expansion will be financed by one of the following options:

Option A: issuing 8% debentures (2030)

Option B: making a general issue of ordinary shares.

(e) Advise the directors which option they should choose. Justify your choice by discussing **both** options.

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2 Nadiya maintains control accounts as part of the double-entry system of her business. The purchases ledger and sales ledger contain memorandum accounts only.

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

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[3]

Additional information

On 31 March 2024 Nadiya found that the closing balance of the control accounts did not agree with the totals of the individual account balances in the purchases and sales ledgers.

	$
Purchases ledger control account balance	28 540
Total of trade payables in purchases ledger	31 790
Sales ledger control account balance	35 790
Total of trade receivables in sales ledger	36 410

Nadiya discovered the following errors which accounted for the differences.

1 A credit note issued by Nadiya for $490 had been entirely overlooked.

2 The total of the purchases journal had been understated by $3250.

3 A cheque for $380 received from a credit customer had been dishonoured by the bank. This had been incorrectly recorded on the debit side of the cash book but had been posted correctly to the ledger account.

4 An error of original entry had occurred when a purchases invoice for $4650 had been recorded as $5640.

5 Interest of $70 charged on an overdue customer's account had been credited to the customer's account.

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(b) Complete the following statements to correct the accounting records for trade payables.

Correction of purchases ledger control account	
	$
Incorrect balance	28 540

Correction of total of purchases ledger balances	
	$
Incorrect total	31 790

[4]

(c) Complete the following statements to correct the accounting records for trade receivables.

Correction of sales ledger control account	
	$
Incorrect balance	35 790

Correction of total of sales ledger balances	
	$
Incorrect total	36 410

[6]

Additional information

Control accounts sometimes contain contra entries.

(d) Explain why contra entries may be made in control accounts.

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3 Usman began selling goods on credit on 1 January 2021. He maintains an allowance for irrecoverable debts at each financial year end.

(a) Explain **two** accounting concepts which are applied when making an allowance for irrecoverable debts.

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[4]

(b) State **two** factors which should be considered when deciding the percentage that should be used for an allowance for irrecoverable debts.

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[2]

Additional information

The following information is available about total trade receivables at the financial years ended 31 December:

	$
2021	18 200
2022	17 300
2023	19 600

The allowance for irrecoverable debts has been maintained at 4% each year.

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(c) Prepare the allowance for irrecoverable debts account for the years 2022 and 2023.

Allowance for irrecoverable debts account

		$			$

[5]

Additional information

On 5 January 2024 it was decided to write off $3470 as irrecoverable, being the balance on the account of a credit customer, T Limited.

However, on 29 March 2024 a cheque was received in full settlement of the amount owed by T Limited.

(d) State the double-entry necessary to record the following transactions:

Writing off the account on 5 January 2024

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The settlement of the amount due on 29 March 2024

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4 J Limited is a manufacturing company. Recently the directors decided to change the costing system from marginal costing to absorption costing.

(a) Explain **each** of the following terms used in absorption costing.

(i) Allocation

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(ii) Apportionment

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Additional information

The factory has two production departments: preparation and finishing. There are two service departments: stores and canteen.

Some overheads have already been allocated to departments. The following budgeted overheads for the year ended 31 March 2024 have yet to be apportioned.

	$
Electricity	63 000
Rent	44 000

The following information is available about the departments.

	Production departments		Service departments	
	Preparation	Finishing	Stores	Canteen
Floor area (square metres)	2400	1800	50	150
Issues from stores	600	250	–	–
Number of employees	64	40	8	–
Power (kilowatt hours)	32 000	8000	400	1600

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(b) Complete the table to show the apportionment of the budgeted overheads for the year ended 31 March 2024.

		Production departments		Service departments	
	Total	Preparation	Finishing	Stores	Canteen
	$	$	$	$	$
Overheads allocated	272 120	184 100	60 800	10 960	16 260
Electricity	63 000				
Rent	44 000				
Total overheads	379 120				
Apportion canteen					
Subtotal					
Apportion stores					
Subtotal					

[6]

Additional information

The following budgeted information is available for the two production departments for the year ended 31 March 2024.

	Preparation	Finishing
Machine hours	17 500	14 200
Labour hours	16 800	20 300

(c) Calculate, to **two** decimal places, the overhead absorption rate for **each** production department for the year ended 31 March 2024.

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Additional information

For the year ended 31 March 2024, actual hours for the preparation department were:

Machine hours	16 920
Labour hours	16 350

Total actual overheads were the same as budgeted overheads.

(d) Calculate the over absorption or under absorption of overheads for the preparation department for the year ended 31 March 2024.

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Additional information

An order has been received from a customer. The following information is available.

Direct materials	$800
Direct labour	
Preparation department	52 hours at $12.20 per hour
Finishing department	90 hours at $14.50 per hour
Machine hours	
Preparation department	140 hours
Finishing department	48 hours

Products are sold so as to achieve a gross margin of 50%.

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(e) Calculate the selling price for the order.

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Additional information

It has been suggested that the company would benefit if it switched to a just in time (JIT) method of inventory control.

(f) Advise the directors whether or not they should switch to a JIT method of inventory control. Justify your answer by considering **both** financial and non-financial factors.

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