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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2080591803

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **May/June 2025**

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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[Turn over

1 H Limited's financial year ended on 31 December 2024. On that date, the following information was available.

Non-current assets included the following:

	Cost at 1 January 2024	Provision for depreciation at 1 January 2024	Depreciation policy	Allocation
Motor vehicles	$80 000	$28 400	20% per annum using the reducing balance method	75% Distribution costs 25% Administrative expenses
Furniture and equipment	$45 000	$16 200	15% per annum using the straight-line method	100% Administrative expenses

On 1 July 2024, equipment, which cost $8000 when purchased on 1 January 2022, was sold for $3900. Depreciation is provided on furniture and equipment on a month-by-month basis in the year of disposal.

(a) Calculate the depreciation charge for 2024 on the following non-current assets.

(i) Motor vehicles

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(ii) Furniture and equipment

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(b) Calculate the profit or loss on the disposal of equipment.

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Additional information

The books of account also included the following balances on 31 December 2024.

	$
10% Debenture (2026)	80 000
Administrative expenses	11 560
Carriage outwards	2 700
Cost of sales	288 400
Debenture interest	4 000
Directors' remuneration	56 000
Distribution costs	9 800
Dividends paid	22 500
Office wages	37 150
Marketing expenses	24 240
Property at valuation at 1 January 2024	970 000
Rental income	7 200
Revenue	570 000
Sales staff wages and salaries	62 300

Additional information at 31 December 2024

1 Part of the premises has been rented out since 1 May 2024. The rental income is $2400 for every three months payable in advance.

2 Directors' remuneration is an administrative expense.

3 Marketing expenses include the cost of an advertising campaign, $8800, which runs from 1 September 2024 to 30 April **2026**.

4 Office wages owing were $1250.

5 Sales staff are yet to be paid an annual bonus of 2% of all sales above $450 000.

6 The debenture was issued on 1 April 2024.

7 Taxation for the year is estimated to be $4200.

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(c) Prepare the statement of profit or loss for the year ended 31 December 2024.

H Limited
Statement of profit or loss for the year ended 31 December 2024.

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Workings:

Distribution costs
Administrative expenses
Rental income

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Additional information

1 During the year ended 31 December 2024, an issue of 400 000 ordinary shares of $0.50 each was made at a premium of $0.20 per share. The issue was fully subscribed.

2 At 31 December 2024, the directors decided to revalue property at $820 000.

(d) Prepare the statement of changes in equity for the year ended 31 December 2024.

H Limited
Statement of changes in equity
for the year ended 31 December 2024

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
Balances at 1 January 2024			95 000	112 700	
Share issue					
Dividends paid					
Revaluation of property					
Profit for the year					
Balances at 31 December 2024	725 000	120 000			

[6]

Additional information

There are plans to expand the business which will require additional finance. The directors are considering two options.

Option A: Make a rights issue of 150 000 ordinary shares of $0.50 each at a premium of $0.20 per share.

Option B: Issue an 8% debenture (2027) for $105 000.

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(e) Advise the directors which option they should choose. Justify your answer by discussing **both** the advantages and disadvantages of **each** option.

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2 Virat prepared the trial balance at 28 February 2025, the end of his financial year. However, the totals did **not** agree.

Control accounts are **not** maintained by the business.

A check of the entries in the books of account revealed the following errors.

1 A sales invoice, $80, had been debited to the account of Rafiq instead of Raif.

2 A credit note, $170, received from P Limited had been correctly recorded in the book of prime entry but had **not** been posted to the personal account.

3 No record has been made of goods taken by Virat for personal use, valued at cost, $330.

4 The total of the discount received column in the cash book, $97, had been debited to the discounts allowed account as $79.

5 No entries had been made to record the receipt of $370 from Abdul, a credit customer. The balance of his account had been written off in 2024.

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(a) Prepare journal entries to correct the errors. Narratives are **not** required.

Journal

Error		Dr $	Cr $
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4			
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Additional information

Before the errors were corrected, a draft statement of profit or loss for the year ended 28 February 2025 had been prepared, showing a draft profit for the year of $37 320.

(b) Calculate a revised figure for profit for the year ended 28 February 2025.

	$
Draft profit for the year	37 320

[5]

(c) Explain why an error of principle would have no effect on the agreement of trial balance totals.

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3 Zak has **not** maintained full accounting records for his retail business.

He has provided the following details for the year ended 31 December 2024.

	$
Purchases	82 980
Returns outwards	1 050

Inventory levels increased by $2730 during the year ended 31 December 2024.

Zak's policy is to sell all goods to achieve a gross profit margin of 40%.

(a) Calculate the revenue for the year ended 31 December 2024.

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Additional information

Zak is not certain how much the business is owed by its credit customers at 31 December 2024. The following information is available.

1 At 1 January 2024, credit customers owed $11 880.

2 Credit sales are 75% of total sales.

3 Bank statements show that $96 900 was received from credit customers during the year ended 31 December 2024.

4 Some credit customers were given a 5% cash discount for prompt payment. Zak estimates that 20% of all receipts from credit customers were made after deducting the cash discount.

(b) Calculate the amount owed by credit customers at 31 December 2024.

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Additional information

Zak would like to improve the credit control of his business.

(c) Identify **two** ways, other than allowing a cash discount, in which credit control can be improved.

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(d) State **two** benefits of improving credit control.

1 .....

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2 .....

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[2]

Additional information

Zak has decided to prepare full accounting records in future, using a computerised accounting system. However, he is concerned about the security of data.

(e) State **three** ways in which the security of data can be ensured within a computerised accounting system.

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

(a) Define the following terms:

(i) contribution

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(ii) fixed costs

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..... [1]

(iii) margin of safety.

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..... [1]

Additional information

Currently, the factory is operating at full capacity of 8300 units per month. All production is sold. The following details are available about the single product.

Per unit	$
Selling price	36
Direct labour	17
Direct materials	8
Fixed costs	6

The directors have a target profit of $35 000 per month.

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(b) Calculate the following in units:

(i) break-even point

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(ii) margin of safety.

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(c) Calculate the amount by which the monthly target profit is exceeded.

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Additional information

At a second factory, two products are currently being made, Product Exe and Product Wye. The following budgeted information is available.

	Product Exe	Product Wye
Selling price per unit	$40	$38
Direct materials per unit	$14	$15
Direct labour per unit	1.5 hours at $8 per labour hour	1.25 hours at $8 per labour hour
Monthly capacity	14 000 units	4000 units
Monthly output and sales	85% of capacity	100% of capacity

The factory's fixed costs per month are $126 000.

The directors are aware that an overseas supplier could provide Product Wye resulting in a contribution to M Limited of $17 per unit. The overseas supplier can supply 3000 units per month.

The directors are considering two options.

Option A

Continue with the production and sales of both Products Exe and Wye as now.

Option B

1 Stop production of Product Wye, and buy in 3000 units from the overseas supplier.

2 Most direct labour currently making Product Wye would be used to make additional units of Product Exe so that output reaches full capacity.

3 To sell all output of Product Exe, the selling price of all units of Product Exe would be reduced by 2.5%.

4 The directors will negotiate an increase in trade discount from 20% to 25% on all purchases of direct materials for Product Exe.

5 Direct labour currently producing Product Wye would require retraining at a cost of $5000 to be written off at the start of the first month of operation.

6 The machinery currently used for production of Product Wye has a carrying value of $23 000 and would be written off at the start of the first month of operation.

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(d) Prepare a marginal costing statement for Option A to show the **total** monthly profit being made.

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(e) Calculate the **total** profit to be made in the first month of operation if Option B is adopted.

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(f) Advise the directors which option they should choose. Justify your choice by discussing **both** financial and non-financial factors for **each** option.

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