Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

6668445012

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 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 The directors of Y Limited have provided the following balances at 30 June 2022.

	$
6% debentures (2025–2026)	60 000
Administrative expenses	89 540
Bank overdraft	1 440
Carriage inwards	4 310
Delivery vehicles – valuation	74 000
Distribution costs	72 910
Dividends paid	6 400
Finance costs	1 800
Inventory at 1 July 2021	105 600
Office equipment – cost	54 600
Office equipment – provision for depreciation	22 300
Provision for doubtful debts	3 540
Purchases	338 200
Retained earnings	16 920
Returns inwards	7 550
Revenue	615 300
Share capital (ordinary shares of $1 each)	80 000
Trade payables	48 650
Trade receivables	93 240

The following information is also available.

1 Inventory at 30 June 2022 was valued at $126 800.

2 Inventory at 30 June 2022 included damaged goods costing $3200 that could be sold for $3950 after repairs costing $910.

3 The delivery vehicles have an estimated value at 30 June 2022 of $62 000.

4 Office equipment is to be depreciated at 10% per annum using the reducing balance method.

5 Administrative expenses included $1800 office rent for the three months ending 31 August 2022.

6 Distribution costs of $850 were owing at 30 June 2022.

7 The 6% debentures (2025–2026) were issued in 2017.

8 An irrecoverable debt of $490 is to be written off to administrative expenses.

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

10 There is no interest charged on the bank overdraft.

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REQUIRED

(a) Prepare the income statement for the year ended 30 June 2022.

Y Limited
Income Statement for the year ended 30 June 2022

	$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

Cost of sales
Administrative expenses
Distribution costs

[15]

(b) Prepare the statement of financial position at 30 June 2022.

Y Limited
Statement of Financial Position at 30 June 2022

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Additional information

The directors of Y Limited wish to repay the 6% debentures (2025–2026) early. They are considering making a rights issue of one ordinary share for every two shares held at a premium of 50%.

REQUIRED

(c) Advise the directors whether or not they should make a rights issue of ordinary shares to repay the debentures. Justify your answer.

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[Total: 30]

2 Bharti owns a small business. The following information was extracted from her accounting records.

Balances at 1 July 2021

	$
Delivery vehicles	
cost	52 000
provision for depreciation	14 000

Extract from asset register

Date of purchase	Vehicle	Cost $
1 July 2019	DV1	18 000
1 July 2020	DV2	34 000

On 1 October 2021, Bharti purchased a new delivery vehicle (DV3) costing $26 000. She paid $14 500 by cheque and the balance was settled by part-exchange of the old delivery vehicle, DV1.

Bharti depreciates delivery vehicles using the straight-line method on a month-by-month basis. The estimated useful life of all delivery vehicles is five years with no residual value.

REQUIRED

(a) Prepare the following ledger accounts for the year ended 30 June 2022.

Delivery Vehicles – Cost

Date	Details	$	Date	Details	$

Delivery Vehicles – Provision for depreciation

Date	Details	$	Date	Details	$

Disposal account

Date	Details	$	Date	Details	$

Workings:

[9]

(b) State **one** reason why non-current assets are depreciated, with reference to an appropriate accounting concept.

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..... [2]

(c) Explain **one** difference between capital expenditure and revenue expenditure.

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..... [2]

(d) State **one** example of a:

(i) capital receipt

..... [1]

(ii) revenue receipt

..... [1]

[Total: 15]

3 The directors of H Limited provided the following details from the statement of financial position at 30 September 2021.

	$
Equity and reserves	
Share capital (ordinary shares of $0.50 each)	200 000
Share premium	50 000
Retained earnings	120 000

During the year ended 30 September 2022, the following transactions took place.

	Date	Transaction
1	1 November 2021	Paid a final dividend of $0.06 per ordinary share.
2	1 January 2022	Made a rights issue of two ordinary shares for every five shares held at a price of $0.60. The issue was fully subscribed.
3	1 July 2022	Paid an interim dividend of $0.02 per ordinary share.
4	31 August 2022	Made a bonus issue of one ordinary share for every four shares held. The directors decided to leave the reserves in the most flexible form.

REQUIRED

(a) Prepare journal entries to record transactions 1 – 4. Dates and narratives are **not** required.

Workings:

Journal

Item	Account	Debit $	Credit $
1			
2			
3			
4			

[10]

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(b) State **three** reasons why a company may make a bonus issue of shares.

1 .....

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2 .....

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3 .....

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[3]

(c) State **two** features of preference shares.

1 .....

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2 .....

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[2]

[Total: 15]

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[Turn over

4 Mandeep owns two manufacturing businesses.

REQUIRED

(a) State what is meant by:

(i) Variable costs

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(ii) Fixed costs

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(iii) Semi-variable costs

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Additional information

One of Mandeep's businesses manufactures three products, Ess, Tee and Ewe. The following monthly budgeted information is available for December 2022.

Per unit	Ess	Tee	Ewe
Selling price	$90	$105	$150
Contribution	$41.50	$45.00	$55.20
Maximum monthly demand	80 units	50 units	75 units

Budgeted fixed overheads are absorbed at $14 per unit based on maximum monthly demand.

REQUIRED

(b) Calculate the **total** maximum contribution **and** also **total** maximum profit that Mandeep can earn in December 2022.

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Additional information

The business uses the same material to manufacture Ess, Tee and Ewe. The following information is available for direct material.

Per unit	Ess	Tee	Ewe
Direct material ($6 per metre)	5 metres	6 metres	8 metres

REQUIRED

(c) Calculate the total material **(in metres)** required to meet the maximum demand in December 2022.

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..... [1]

Additional information

Mandeep has been told that due to a national shortage of material, he will only be able to obtain 1000 metres of material each month for the next three months.

REQUIRED

(d) Prepare a statement to show the maximum contribution **and** also maximum profit that Mandeep can earn in December 2022 taking account of the shortage of material.

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Additional information

Mandeep made enquiries and found an overseas supplier who would be able to provide enough material to meet his requirements each month. Mandeep has never used this supplier before. He has been assured that the material will be of a similar quality to his current supply and that the price would be $5 per metre.

REQUIRED

(e) Advise Mandeep whether or not he should purchase **all** future supplies of material from the overseas supplier. Justify your answer.

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Additional information

Mandeep is currently preparing budgets for his **other business** for the next year.

He operates a system of absorption costing and provides the following information for one unit of product.

Direct material	6 kg at $4.80 per kg
Direct labour	Machining department 2 hours at $9 per hour
	Assembly department 3 hours at $8 per hour
Overheads	Machining department 2 direct labour hours 3 machine hours
	Assembly department 3 direct labour hours 0.5 machine hours

Overhead absorption rates	
Machining department	$6.75 per machine hour
Assembly department	$4.60 per direct labour hour

REQUIRED

(f) Calculate the price per unit that Mandeep should charge customers in order to obtain a 20% profit margin.

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(g) State **three** benefits to a business of preparing budgets.

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[3]

(h) State **two** limitations of budgetary control.

1 .....

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2 .....

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[2]

[Total: 30]

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