Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

5555654049

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 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 Karen and Lee are in partnership sharing profits and losses in the ratio 2 : 3 respectively. The following balances were available at 28 February 2022.

Trial balance at 28 February 2022

	Debit $	Credit $
Administrative expenses	6 020	
Bank interest charges	180	
Bank overdraft		5 910
Capital accounts		
Karen		40 000
Lee		50 000
Carriage inwards	3 880	
Current accounts, 1 March 2021		
Karen		1 220
Lee	1 880	
Drawings		
Karen	17 500	
Lee	19 900	
Insurance	7 740	
Inventory, 1 March 2021	8 250	
Loan from Lee		10 000
Non-current assets		
At cost	160 000	
Provision for depreciation, 1 March 2021		56 000
Provision for doubtful debts, 1 March 2021		260
Purchases	151 440	
Returns	2 200	3 930
Revenue		229 250
Trade payables		14 450
Trade receivables	31 210	
Suspense account	820	
	411 020	411 020

The following information is also available.

1 On 28 February 2022, inventory had been valued at cost, $21 220. This figure included some damaged items which had cost $1320 and had a sales value of $2480. The damaged items could be repaired at a cost of $1300.

2 In January 2022, an error had been made recording returns inwards, $410. This amount had been credited to the returns outwards account.

3 Insurance includes $1410 paid for the three months ended 30 April 2022.

4 The loan from Lee had been arranged on 1 November 2021. It was agreed that Lee should be entitled to interest at 6% per annum on the loan. No entries have been made for interest on the loan.

5 The provision for doubtful debts should be increased to $310.

6 Non-current assets are to be depreciated by 20% per annum using the reducing balance method.

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REQUIRED

(a) Prepare the income statement for the year ended 28 February 2022. Use the space provided on the **next page** for your workings.

Karen and Lee
Income statement for the year ended 28 February 2022

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Workings:

[9]

(b) Prepare Lee's current account for the year ended 28 February 2022.

Lee
Current Account

	$		$

[4]

Additional information

The partners have been considering making a more detailed partnership agreement to include the following terms.

1 Interest to be charged on all drawings at 10%.

2 Karen to receive a salary of $8400 per annum.

3 Profits and losses would continue to be shared in the ratio Karen : Lee, 2 : 3 respectively.

REQUIRED

(c) Calculate the increase or decrease in Lee's current account balance at 28 February 2022 assuming the new agreement had been in use from 1 March 2021.

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Additional information

Karen and Lee had also considered operating as a limited company.

REQUIRED

(d) Explain **one** advantage of operating as a partnership rather than a limited company.

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(e) Explain **two** advantages of operating as a limited company rather than a partnership.

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[4]

Additional information

The partners are concerned about the business's liquidity position.

Karen believes the problem arises because the business holds too much inventory. She suggests that credit purchases should be reduced for the next three months to ensure inventory levels are lowered.

REQUIRED

(f) Advise Lee whether or not he should accept Karen's suggestion. Justify your advice.

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[Total: 30]

2 V Limited owns various non-current assets. Non-current assets depreciate due to a number of factors including wear and tear.

REQUIRED

(a) State **two** reasons, other than wear and tear, why non-current assets depreciate.

1 .....

2 .....
[2]

Additional information

Businesses must apply the consistency concept when accounting for depreciation.

REQUIRED

(b) Describe the consistency concept.

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Additional information

The company's financial year ends on 31 December.

1 Property was purchased on 1 January 2019 at a cost of $850 000. Property is depreciated at 5% per annum on cost.

2 On 1 January 2021 the directors decided to revalue the property at $1 200 000.

REQUIRED

(c) Prepare the journal entry to record the revaluation of the property. A narrative is **not** required.

Journal

	Dr $	Cr $

[3]

Additional information

1 Furniture and equipment was purchased on 1 January 2019 at a cost of $140 000.

2 Furniture and equipment is depreciated at 10% per annum using the reducing balance method.

3 On 1 September 2021, the directors sold furniture and equipment which had cost $21 000 on 1 January 2019.

4 A full year's depreciation is charged in the year of purchase but none in the year of disposal.

REQUIRED

(d) Calculate the charge for depreciation of furniture and equipment for the year ended 31 December 2021.

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Additional information

1 Motor vehicles were purchased on 1 January 2020 at a cost of $84 000.

2 Motor vehicles are depreciated at 20% per annum using the reducing balance method.

3 On 1 November 2021, a new motor vehicle was purchased at a cost of $44 000. A cheque for $17 000 was paid for the vehicle and the balance was covered by the part-exchange of a vehicle which had cost $40 000 on 1 January 2020.

4 A full year's depreciation is charged in the year of purchase but none in the year of disposal.

REQUIRED

(e) Prepare the motor vehicle disposal account for the year ended 31 December 2021.

Motor vehicle disposal account

	$		$

[4]

[Total: 15]

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3 N Limited is a trading company. The statement of financial position at 31 December 2021 is as follows.

	$000
Assets	
Non-current assets at net book value	1520
Current assets	
Inventory	35
Trade receivables	30
Total assets	1585
Equity and liabilities	
Equity	
Share capital	900
Share premium	180
Retained earnings	202
Total equity	1282
Liabilities	
Non-current liabilities	
8% Debentures (2026)	250
Current liabilities	
Trade payables	42
Bank overdraft	11
	53
Total liabilities	303
Total equity and liabilities	1585

The following information is also available.

1 Purchases for the year were $600 000 of which 80% were on credit.

2 Credit sales were 30% of all sales.

3 The company had a gross profit margin of 40%. The company's gross profit for the year ended 31 December 2021 was $420 000.

4 The company's profit for the year was $182 000.

5 No interest was charged on the bank overdraft.

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REQUIRED

(a) Calculate the following ratios for the year ended 31 December 2021 stating the formula used.

(i) Trade payables turnover (days)

Formula	Calculation

[3]

(ii) Trade receivables turnover (days)

Formula	Calculation

[3]

(iii) Return on capital employed (to **two** decimal places)

Formula	Calculation

[3]

(iv) Non-current asset turnover (to **two** decimal places)

Formula	Calculation

[2]

(b) Explain the importance of this non-current asset turnover to the directors of N Limited.

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(c) Explain **one** reason why shareholders will be interested in the financial statements of a company.

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[Total: 15]

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4 F Limited is a manufacturing company which uses absorption costing at one of its factories. This factory has two production departments and two service departments.

Budgeted costs have already been allocated and apportioned.

REQUIRED

(a) Explain the meaning of **each** of the following terms:

(i) Allocation

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..... [2]

(ii) Apportionment

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(b) State **one** benefit of using absorption costing.

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(c) State **one** limitation of using absorption costing.

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Additional information

The budgeted costs for April 2022 before reapportionment of the service departments' overheads are as follows.

	Production departments		Service departments	
	Assembly department	Finishing department	Stores department	Maintenance department
	$	$	$	$
Total overhead costs	275 000	103 200	19 200	26 700

The service department overheads are apportioned to the production departments on the following basis.

	Assembly department	Finishing department	Stores department	Maintenance department
Maintenance	60%	30%	10%	–
Stores	75%	25%	–	–

REQUIRED

(d) Calculate the total overheads for **each** production department by reapportioning the service department overheads.

	Production departments		Service departments	
	Assembly department	Finishing department	Stores department	Maintenance department
	$	$	$	$
Total overhead costs	275 000	103 200	19 200	26 700
Subtotal				
Total				

[3]

Additional information

The following additional monthly budgeted information is available about the production departments.

	Labour hours	Machine hours
Assembly department	950	1 430
Finishing department	840	380

REQUIRED

(e) Calculate the overhead absorption rate for **each** department to **two** decimal places.

(i) Assembly department

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(ii) Finishing department

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Additional information

In April 2022, production was less than the forecast figure. The Assembly department's actual overheads were $285 400, actual labour hours were 820 and actual machine hours were 1310.

REQUIRED

(f) Calculate the under-absorption or over-absorption of overheads for April 2022 for the Assembly department.

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Additional information

At another factory the company manufactures two products. This factory uses marginal costing. The following details are available.

	Product X	Product Z
	$	$
Direct materials per unit	6	9
Direct labour per unit	9	9
Fixed costs per unit	5	6
Selling price per unit	24	30
Normal production per month (units)	8000	4000

The company has a major customer who usually orders 5000 units of Product X each month. This order is included in the normal production of 8000 units per month.

In May 2022 the customer has asked for 9000 units of Product X.

If it is not possible to supply this quantity, the customer has informed the directors that they will place their entire order and all future orders with another company.

The directors are considering two options.

Option A

1 Stop manufacture of Product Z and devote all labour hours to the production of Product X.

2 The company will be able to complete all the normal orders for Product X and the increased order from the customer.

3 The workforce for Product Z will require some retraining, costing $3000.

Option B

1 Maintain normal production levels.

2 Refuse the customer's order.

3 Reduce the selling price of Product X by 5% in order to enable all normal production of this unit to be sold.

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REQUIRED

(g) Calculate the profit to be made in May 2022 for each of the options.

(i) Option A

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(ii) Option B

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

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[Total: 30]

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