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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2711955331

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **October/November 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 **20** pages. Any blank pages are indicated.

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[Turn over

1 Ahmed is a sole trader. He does not maintain full accounting records. He provided the following information for the year ended 30 June 2024.

1 Payments and receipts during the year included the following:

	$
Carriage outwards	1 040
Cash sales	5 200
Electricity charges paid	1 920
General expenses paid	3 600
Motor expenses paid	4 250
Payments to credit suppliers	61 240
Receipts from credit customers	102 600
Rent paid	16 800

2 All purchases are made on credit.

3 Assets and liabilities included the following:

	At 30 June	
	2023 $	**2024** $
8% bank loan	–	3 000
Allowance for irrecoverable debts	1 055	?
Inventory	12 640	?
Other payables: Rent accrued Electricity	600 130	– 90
Other receivables: Rent prepaid	–	1 800
Trade payables	8 800	6 300
Trade receivables	21 100	18 500

4 Inventory at 30 June 2024 was valued at $15 880. This included damaged items costing $960 that will be sold for $1100 after repairs costing $340.

5 During the year Ahmed took goods costing $420 for his own use.

6 An irrecoverable debt of $300 is to be written off.

7 Ahmed wished to maintain the allowance for irrecoverable debts at the same rate as in the previous year.

8 The 8% bank loan was taken out on 1 April 2024. No interest has yet been paid.

9 Ahmed started the business on 1 July 2022. On that date he purchased a motor vehicle for $24 000 and fixtures and fittings for $3200. No other non-current assets have been purchased since that date.

10 Depreciation is to be provided as follows:
Motor vehicle: 20% per annum reducing balance method
Fixtures and fittings: 10% per annum straight-line method.

11 Motor expenses paid included $1140 for motor insurance for the twelve months to 31 August 2024.

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(a) Prepare the statement of profit or loss for the year ended 30 June 2024. Use the space provided on **page 4** to show your workings.

Ahmed
Statement of profit or loss for the year ended 30 June 2024

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Workings:

Revenue
Cost of sales
Rent
Electricity charges
Motor expenses
Depreciation
Other workings

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(b) Explain, with reference to an accounting concept, why adjustments **5**, **6** and **11** on **page 2** were to be made to the financial statements.

Adjustment	
5 Goods for own use	Concept .....
	Explanation ....
6 Irrecoverable debt	Concept .....
	Explanation ....
11 Motor insurance	Concept .....
	Explanation ....

[6]

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Additional information

Ahmed has been offered the opportunity to purchase larger premises for $85 000 which would allow him to increase the sales revenue of the business. As he does not have sufficient personal funds to make the purchase, he is considering two options.

Option 1

Apply for a bank loan to cover the whole purchase price. The bank loan would be repayable over ten years and interest would be payable at 8% per annum.

Option 2

Ahmed's brother has offered to join the business as an equal sharing partner. He would introduce all of the cash required to complete the purchase in exchange for a 50% share of future profits.

(c) Advise Ahmed whether he should go ahead with either of these options. Justify your advice by discussing **both** financial and non-financial factors.

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2 W Limited provided the following extracts from the financial statements at 31 August 2024.

Statement of profit or loss for the year ended 31 August 2024

	$
Sales revenue	720 000
Opening inventory	76 000
Operating expenses	165 000
Finance costs	20 000
Taxation	16 000

Statement of financial position at 31 August 2024

	$
Trade receivables	66 000
Share capital	550 000
Retained earnings	95 000
8% debentures (2026)	45 000
Current liabilities	37 000

The following information is also available:

- cash sales were 15% of total sales
- the gross profit margin was 35%
- the rate of inventory turnover (times) was 6.4 times.

(a) Calculate the trade receivables turnover (days) for the year ended 31 August 2024 showing the formula used.

Formula	Calculation

[2]

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(b) Explain the difference between gross profit margin and mark-up.

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(c) **(i)** State the formula for the rate of inventory turnover (times).

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(ii) Calculate the value of the closing inventory at 31 August 2024.

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(d) Calculate, to **two** decimal places, the return on capital employed for the year ended 31 August 2024 showing the formula used.

Formula	Calculation

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Additional information

The directors of W Limited use accounting ratios to compare the company's progress with other businesses. They are aware that such comparison should only be made with companies in similar business sectors but are also aware that such comparison has limitations.

(e) State **three other** limitations of accounting ratios.

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3 The draft profit of L plc for the year ended 30 June 2024 was calculated at $58 340. The directors have discovered some errors in the accounting records. The draft profit had been calculated **before** correcting the following:

1 Closing inventory had been overstated by $2800.

2 Returns outwards of $570 had been debited to the Purchases account.

3 Distribution costs included a payment of $4320 for advertising covering the **three years** ending 31 March 2027.

(a) Calculate the revised profit for the year ended 30 June 2024.

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Additional information

1 The share capital of L plc comprised ordinary shares of $0.50 each.

2 During the year ended 30 June 2024 the following transactions took place.

Date	Transaction
31 August 2023	Paid a final dividend of $0.05 per share on all shares in issue at that date.
31 December 2023	Made a bonus issue of one ordinary share for every seven shares held at that date. The directors decided to leave the reserves in the most flexible form.
31 March 2024	Paid an interim dividend of 2% on all shares in issue at that date.
31 March 2024	Made a rights issue of one ordinary share for every four shares held at a premium of $0.20 per share. The rights issue was fully taken up.
30 June 2024	Property was revalued downwards by $8000.

3 The value of ordinary share capital at 30 June 2024 was $200 000.

(b) Calculate the value of ordinary share capital at 1 July 2023.

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(c) Complete the statement of changes in equity for the year ended 30 June 2024.

L plc
Statement of changes in equity for the year ended 30 June 2024

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
At 1 July 2023		19200	6500	18400	
Final dividend					
Bonus issue					
Interim dividend					
Rights issue					
Revaluation					
Profit for the year					
At 30 June 2024	200000				

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4 Martina produces and sells a single type of product.

The following budgeted information is available for the year ending 30 November 2025.

	$
Sales revenue (3500 units)	542 500
Direct materials	87 500
Direct labour	105 000
Production overheads	126 000
Selling overheads	157 500
Profit for the year	66 500

Variable production overheads are budgeted to be $4 per unit.

Selling overheads include 5% sales commission. All remaining selling expenses are fixed.

(a) Calculate:

(i) the budgeted contribution **per unit**

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(ii) the budgeted fixed overheads for the year

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(iii) the budgeted margin of safety **in units**.

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Additional information

Martina feels that production and sales could be increased by 20% by improving the quality of the product.

She plans to make the following changes.

1 Purchase new machinery at a cost of $60 000. The machinery will have an estimated useful life of five years and a residual value of $10 000 at the end of its lifetime.

2 Undertake an advertising campaign at a cost of $1250 per month.

3 Reduce the selling price by $6 per unit.

4 Purchase higher quality materials that will increase the direct material cost by $3 per unit.

5 Direct labour hours per unit will reduce by 5%.

6 Use of the new machinery will reduce the unit variable production overhead by 20%.

7 Sales commission will remain at 5%, but commission on all units sold in excess of 3500 will be paid at 10%.

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(b) Prepare a marginal cost statement for the year ending 30 November 2025 to show the revised contribution and revised profit for the year if Martina decides to go ahead with the plan.

Martina
Budgeted marginal cost statement for the year ending 30 November 2025

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Workings:

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(c) Advise Martina whether or not she should go ahead with the plan. Justify your answer by considering **both** financial and non-financial factors.

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(d) Explain **one** advantage of cost–volume–profit analysis.

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(e) Explain **one** reason why marginal costing is considered to be more useful for short-term decision making than absorption costing.

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(f) Explain the effect on profit of using marginal costing rather than using absorption costing.

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