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ACCOUNTING

9706/22

Paper 2 Fundamentals of Accounting

May/June 2023

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.

- 1 J Limited's financial year ended on 30 September 2022. The following balances were available on this date.

	\$
8% Debentures (2025)	100 000
Administrative expenses	28 000
Distribution costs	57 000
Dividends paid	21 000
Finance costs	4 000
Inventory at 1 October 2021	54 000
Issued share capital: shares of \$0.50 each at 1 October 2021	420 000
Non-current assets at 1 October 2021	
Cost	1 300 000
Provision for depreciation	260 000
Purchases	460 000
Retained earnings at 1 October 2021	125 000
Revenue	869 000
Share premium at 1 October 2021	210 000
Trade receivables	83 000

The following additional information is available.

- 1 Inventory at 30 September 2022 was valued at \$57 000.
- 2 The balance of the account of a credit customer, \$3000, should be written off as irrecoverable and charged to administrative expenses.
- 3 The directors have agreed to create an allowance for irrecoverable debts of 5% of trade receivables. The allowance should be charged to administrative expenses.
- 4 Debenture interest for the second half of the year is outstanding.
- 5 Non-current assets should be depreciated at 20% per annum using the straight-line method. Depreciation should be allocated as follows:

Administrative expenses	60%
Distribution costs	40%

REQUIRED

- (a) Prepare the statement of profit or loss for the year ended 30 September 2022. Use the space provided to show your workings.

J Limited
Statement of profit or loss for the year ended 30 September 2022

\$

Workings:

Administrative expenses
Distribution costs

[11]

Additional information

The directors found that the following transaction had **not** been recorded in the books of account:

On 30 September 2022 the directors had made a bonus issue of 2 ordinary shares for every 3 shares held. The directors had decided to maintain reserves in their most flexible form.

REQUIRED

- (b) Calculate the balance of retained earnings at 30 September 2022 following the bonus issue.

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..... [6]

- (c) State **one** reason why the directors of a company might decide to make a bonus issue.

..... [1]

- (d) Explain **one** reason why trade payables and potential lenders might approve of a company making a bonus issue.

.....
.....
.....
..... [2]

- (e) Identify **three** points the directors should consider when deciding whether to pay a dividend.

1

.....
2

.....
3

[3]

Additional information

The directors of J Limited wish to improve the company's liquidity. They will choose one of the following options.

Option 1: allow trade receivables a cash discount of 5% for payment within 20 days.

Option 2: make all purchases on credit from a different supplier who is prepared to offer a trade discount.

REQUIRED

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

[7]

[Total: 30]

- 2 Rudra prepares bank reconciliation statements for his business at the end of each month.

REQUIRED

- (a) State **three** reasons why it is important to a business to prepare bank reconciliation statements at regular intervals.

1

.....
2

.....
3

[3]

Additional information

On 31 March 2022 the balance shown in the business's cash book (bank columns) was \$3060 overdrawn. This did not agree with the balance shown on the business's bank statement on this date. The difference in the two balances was accounted for by the following:

- 1 Rudra had omitted to record a direct debit for water charges of \$442.
- 2 There were unpresented cheques: TK Stores \$482, RH Supplies \$1043.
- 3 Bank charges, \$85, appeared on the bank statement but had not yet been recorded in the cash book.
- 4 Rudra had debited the cash book with cash takings, \$893, but this had not yet been recorded by the bank.
- 5 A cheque payment to Peter, \$320, had been correctly recorded in the bank statement, but had been entered in the cash book as \$230.
- 6 The bank statement included an entry for a dishonoured cheque for \$582 received by Rudra from Jamia. No entries had been made in the cash book to record the dishonoured cheque.
- 7 An error had been made in the cash book. Interest received, \$225, had been correctly recorded in the bank statement, but had been credited in the cash book.

REQUIRED

- (b) Prepare the cash book to show the updated balance at 31 March 2022. Dates are not required.

Cash book (bank columns)

[6]

- (c) Prepare a bank reconciliation statement to show the bank statement balance at 31 March 2022.

Rudra
Bank reconciliation statement at 31 March 2022

[4]

(d) Define **each** of the following terms:

(i) unpresented cheque

..... [1]

(ii) dishonoured cheque.

..... [1]

[Total: 15]

- 3** Khaled opened his business on 1 January 2021 with a capital of \$41 000. He did not maintain a full set of accounting records.

Khaled wishes to know his profit or loss for the year ended 31 December 2021. He has provided the following information.

1 Assets and liabilities at 31 December 2021

	\$
Bank overdraft	3470
Bank loan	8500
Inventory	18450
Non-current assets (carrying value)	27500
Trade payables	9940
Trade receivables	7230

- 2 Non-current assets include a motor vehicle. This vehicle had been privately owned by Khaled but during 2021 it was transferred to the business at a valuation of \$9000.
 - 3 During 2021 Khaled's drawings were \$14 870.

REQUIRED

- (a) Calculate the business's profit or loss for the year ended 31 December 2021.

[7]

Additional information

During 2022 Khaled kept more detailed records but could not provide a figure for revenue. The following information is available at 31 December 2022.

	\$
Inventory at 31 December 2022	16 250
Purchases	148 300

Khaled's policy is to mark-up all goods by 50%.

REQUIRED

- (b) Calculate revenue for the year ended 31 December 2022.

.....

 [4]

- (c) State **two** advantages to a business of maintaining a full set of accounting records.

1

 2

 [2]

- (d) State **two** disadvantages to a business of maintaining a full set of accounting records.

1

 2

 [2]

[Total: 15]

- 4 K Limited is a manufacturing company which has two production departments and one service department at one of its factories. At this factory absorption costing is used.

REQUIRED

- (a) Define **each** of the following terms:

- (i) cost centre

..... [1]

- (ii) allocation of overheads

..... [1]

- (iii) apportionment of overheads.

..... [1]

Additional information

The following budgeted information is available for the year ended 31 August 2022.

	Production departments		
	Cutting \$	Finishing \$	Service department \$
Factory overheads	273 820	189 240	31 350

The service department's overheads are reapportioned on the basis of the number of employees in each production department.

	Cutting department	Finishing department
Number of employees	125	84

REQUIRED

- (b) Reapportion the service department's overheads to the production departments.

	Cutting department \$	Finishing department \$	Service department \$
Factory overheads	273 820	189 240	31 350
Reapportionment			
Total overheads			

[2]

Additional information

The following forecast information is available for the year ended 31 August 2022.

	Cutting department	Finishing department
Direct labour hours per annum	9 400	7 420
Machine hours per annum	17 900	3 840

REQUIRED

- (c) Calculate an appropriate overhead absorption rate, correct to **two** decimal places, for **each** production department:

- (i) Cutting department

..... [1]

- (ii) Finishing department.

..... [1]

Additional information

The actual results for the year ended 31 August 2022 were as follows:

	Cutting department	Finishing department
Factory overheads	\$312 600	\$193 400
Direct labour hours	9 800	7 210
Machine hours	17 200	4 220

- (d) Calculate the under-absorption or over-absorption of factory overheads for each production department for the year ended 31 August 2022.

- (i) Cutting department

.....

 [3]

- (ii) Finishing department

.....

 [3]

Additional information

At a second factory marginal costing is used.

A single product, Product X, is manufactured. However, demand for this product has fallen recently due to increased competition.

The following information is available for Product X.

Per unit	\$
Direct materials	22
Direct labour	18
Contribution	20

Normal capacity is 14 000 units per month. The factory is currently operating at 75% of normal capacity. All the units produced are sold. Fixed costs per month are \$56 000.

- (e) Calculate the profit for one month.

.....

[1]

Additional information

The directors are considering two options to increase profits.

Option A:

- 1 Reduce the selling price per unit by 5%.
- 2 Run a six-month advertising campaign at a cost of \$1100 per month.
- 3 Monthly sales are forecast to increase by 25% on current levels.

Option B

- 1 Discontinue manufacture of Product X.
- 2 Produce a different product, Product Y, with a selling price of \$58 per unit.
- 3 It is forecast that demand will be such that the factory can operate at 110% normal capacity.
- 4 Direct material cost will increase by 10% per unit.
- 5 Direct labour costs will remain unchanged. However, workers will be paid an overtime premium of 50% for all work over normal capacity.
- 6 Machinery will need some alterations which will cost \$54 000. Non-current assets are depreciated by 25% per annum.
- 7 The company will need to borrow \$30 000 to finance the cost of the machinery alterations. Interest at 6% per annum will be charged on this loan.

REQUIRED

(f) Calculate the profit to be made on **each** option in the first month of production.

(i) Option A

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..... [3]

(ii) Option B

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..... [6]

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

[7]

[7]

[Total: 30]

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