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Cambridge Assessment International Education

# Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

*7334163468*

**ACCOUNTING** **9706/22**

Paper 2 Structured Questions **May/June 2020**

**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. Blank pages are indicated.

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**[Turn over**

**1** Tariq owns a retail business but does not maintain full accounting records. All goods are purchased on credit, but all sales are on a cash basis.

Tariq provided the following information for the year ended 30 September 2019.

| | $ |
|---|---|
| Trade payables | |
| 1 October 2018 | 4 980 |
| 30 September 2019 | 7 220 |
| Payments to trade payables | 70 300 |
| Discounts received | 940 |

**REQUIRED**

**(a)** Calculate credit purchases for the year ended 30 September 2019.

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**Additional information**

Assets and other liabilities

| | 30 September **2019** $ | 1 October **2018** $ |
|---|---|---|
| Furniture and equipment at valuation | 28 300 | 26 800 |
| Inventory | 8 080 | 7 410 |
| Other receivables: rent prepaid | – | 990 |
| Cash at bank | 1 960 | 3 360 |
| Cash in hand | 410 | 820 |
| Bank loan | 15 000 | 12 000 |
| Other payables: rent accrued | 1 040 | |

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Summary of information taken from bank statements

| | $ |
|---|---|
| Receipts | |
| Cash takings banked | 112 400 |
| Additional bank loan | 3 000 |
| Payments | |
| Trade payables | 70 300 |
| Rent of premises | 14 930 |
| New furniture | 5 200 |
| Accountant's fees | 640 |
| Loan interest | 580 |
| Drawings | 25 150 |

Tariq took goods for personal use valued at cost $390 during the year.

**REQUIRED**

**(b)** Calculate the depreciation of furniture and equipment for the year ended 30 September 2019.

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**Additional information**

Tariq took some cash from the cash box as drawings during the year. However, no record was made of the amounts withdrawn. The following information is also available about cash.

| | $ |
|---|---|
| Cash sales | 133 200 |
| Wages of assistant | 18 800 |

**REQUIRED**

**(c)** Calculate Tariq's cash drawings for the year ended 30 September 2019.

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**(d)** Prepare the income statement for the year ended 30 September 2019.

Tariq
Income statement for the year ended 30 September 2019

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Workings:

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**(e)** Explain the accounting concepts of:

**(i)** business entity

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[2]

**(ii)** substance over form.

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[2]

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**Additional information**

Tariq has become concerned about his business's liquidity. He is considering two options.

Option 1: reduce the inventory levels
Option 2: delay payments to suppliers

**REQUIRED**

**(f)** Advise Tariq which of these actions he should take. Justify your advice.

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[Total: 30]

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**2** Q Limited is a small wholesale business. It uses the reducing balance method of depreciation to depreciate delivery vehicles.

**REQUIRED**

**(a)** Explain **one** advantage and **one** disadvantage to a business of using the reducing balance method of depreciation.

Advantage

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Disadvantage

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[4]

**Additional information**

Delivery vehicle A was purchased on 1 January 2018 for $36 000.
Delivery vehicle B was purchased on 1 April 2018 for $40 000.
Depreciation of 20% per annum has been provided annually using the reducing balance method.
A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
The business's financial year end is 31 December.

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**REQUIRED**

**(b)** Calculate the balance of the delivery vehicles provision for depreciation account at 31 December 2019.

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**Additional information**

On 1 February 2020 delivery vehicle C was purchased at a cost of $38 000. Delivery vehicle B was sold in part-exchange for delivery vehicle C. A cheque for $30 000 was paid on that date in full settlement of the amount remaining after part-exchange.

**REQUIRED**

**(c)** Prepare the delivery vehicles cost account.

Delivery vehicles cost account

| | $ | | $ |
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**Additional information**

Delivery vehicles are depreciated because they are subject to wear and tear.

**REQUIRED**

**(d)** State **two** reasons, other than wear and tear, for depreciating non-current assets.

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2 .....

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[2]

[Total: 15]

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**3** Xu and Zoe have been in partnership for a number of years. They decided to dissolve their partnership on 1 October 2019.

**REQUIRED**

**(a)** State **three** reasons why a partnership might be dissolved.

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[3]

**Additional information**

The partners did not have a formal agreement on sharing of profits and losses.
At the date of the dissolution the partnership's statement of financial position was as follows.

Statement of financial position at 1 October 2019

| Assets | $ | $ |
|---|---|---|
| Non-current assets at net book value | | |
| Motor vehicle | 19400 | |
| Furniture and equipment | 11900 | |
| | | 31300 |
| Current assets | | |
| Inventory | 7480 | |
| Trade receivables | 11200 | |
| | | 18680 |
| Total assets | | 49980 |
| | | |
| Capital and liabilities | | |
| Capital accounts | | |
| Xu | 18000 | |
| Zoe | 22000 | |
| | | 40000 |
| | | |
| Current accounts | | |
| Xu | (2480) | |
| Zoe | 430 | |
| | | (2050) |
| Total capital and current accounts | | 37950 |
| | | |
| Loan account: Xu | | 4300 |
| | | |
| Current liabilities | | |
| Trade payables | 5400 | |
| Bank overdraft | 2330 | |
| | | 7730 |
| Total capital and liabilities | | 49980 |

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The following information is also available.

1 Xu took the motor vehicle at an agreed value of $15 100.

2 The account of a credit customer, $800, had to be written off as irrecoverable. The accounts of remaining trade receivables were settled in full less a 5% cash discount.

3 Other assets were sold for cash.

| | $ |
|---|---|
| Furniture and equipment | 7300 |
| Inventory | 6530 |

4 The accounts of trade payables were settled in full less a 5% cash discount.

5 The costs of dissolution, $620,were paid by cheque.

**REQUIRED**

**(b)** Prepare the realisation account.

Realisation account

| | $ | | $ |
|---|---|---|---|
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**(c)** Calculate the amount due to, or from, Xu as a result of the dissolution.

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[Total: 15]

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**4** DL Limited will soon be introducing a system of budgetary control. The directors are aware that this should provide a number of advantages. However, they are not sure how budgetary control will affect the company's departmental managers.

**REQUIRED**

**(a)** Explain **three** ways in which the introduction of a system of budgetary control will affect the departmental managers of a business.

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**Additional information**

DL Limited manufactures a single product at one of its factories. The following information is available about one unit of production.

| | |
|---|---|
| Selling price | $69 |
| Direct materials | 2 kg at $3.30 per kg |
| Direct labour | 5.2 hours at $8.30 per hour |
| Other variable costs | $2.24 |

The factory's fixed costs are $374 000 per annum.
The factory has the capacity to make 28 000 units per annum in normal working conditions.

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**REQUIRED**

**(b)** Calculate the contribution per unit.

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**Additional information**

The annual target profit for this factory is $50 000. During the year ended 31 December 2019 24 500 units were made and sold and the target profit was not achieved.

**REQUIRED**

**(c)** Calculate by how much the target profit was **not** achieved for the year ended 31 December 2019.

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**Additional information**

The directors are considering two options to increase demand for the product above the current level of 24 500 units. The current factory capacity of 28 000 units could increase by a maximum of 20% by the use of overtime. Overtime will be paid at 1.25 times the basic rate.

Option A

1 Reduce the selling price of the product by $3 per unit.

2 Demand will increase by 40% on 2019 levels.

3 Suppliers of materials will provide an additional discount of 5%.

4 Fixed costs will not be affected.

Option B

1 Borrow $20 000 at an interest rate of 8% per annum to finance improvements to machinery.

2 This machinery will be depreciated at 20% per annum.

3 The cost of material will be reduced to $3 per kg.

4 An advertising campaign will be launched at a cost of $5000 per month.

5 The factory will operate at full capacity without the need for overtime working.

6 The selling price per unit will remain unchanged.

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**REQUIRED**

**(d)** Calculate the annual profit if the directors choose:

**(i)** Option A

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**(ii)** Option B

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**(e)** Advise the directors which option they should choose, taking account of financial **and** non-financial factors. Justify your choice.

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[Total: 30]

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