GradeMax

Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2109586981

ACCOUNTING **9706/23**

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 K Limited's financial year ended on 31 December 2021. The company's income statement for the year ended on that date has already been prepared. The following information was available at the year-end.

	$
8% Debentures (2022)	120 000
Bank overdraft	4 700
Dividends paid	96 000
Inventory	49 400
Non-current assets at cost	960 000
Non-current assets provision for depreciation	170 000
Ordinary share capital: shares of $0.25 each at 31 December 2021	480 000
Other payables	2 700
Other receivables	1 400
Profit for the year	99 400
Retained earnings at 1 January 2021	133 000
Share premium at 31 December 2021	90 000
Trade payables	25 900
Trade receivables	18 900

On 1 July 2021, the directors had made a rights issue of one ordinary share for every two ordinary shares in issue. The rights issue was made at $0.35 per share and was fully subscribed.

REQUIRED

(a) Calculate the profit from operations for the year ended 31 December 2021.

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..... [2]

(b) Calculate the amount raised by the rights issue on 1 July 2021.

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..... [3]

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(c) Prepare a statement of changes in equity for the year ended 31 December 2021.

K Limited
Statement of changes in equity for the year ended 31 December 2021

	Share capital $	Share premium $	Retained earnings $	Total $
Balances at 1 January 2021				

[7]

(d) Prepare the statement of financial position at 31 December 2021.

K Limited
Statement of financial position at 31 December 2021

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[7]

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(e) Explain the meaning of **each** of the following terms.

(i) Revenue reserve

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..... [2]

(ii) Capital reserve

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[Turn over

Additional information

The directors of K Limited will require additional finance in 2022 to cover the cost of opening a new branch of the business.

They are considering two options.

Option 1: Make a further rights issue of shares.
Option 2: Make an issue of 8% debentures.

REQUIRED

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

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..... [7]

[Total: 30]

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2 Rakesh prepared his business's end of year financial statements on 30 September 2021.

REQUIRED

(a) Define the following accounting concepts. Give **one** example of each.

(i) Matching

Definition .....

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Example .....

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[2]

(ii) Going concern

Definition .....

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Example .....

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[2]

(iii) Materiality

Definition .....

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Example .....

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[2]

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[Turn over

Additional information

On 30 September 2021, Rakesh decided to write off an irrecoverable debt of $730 from the account of JD Supplies.

REQUIRED

(b) Prepare the journal entry in Rakesh's books of account to record the write off of the irrecoverable debt. A narrative is **not** required.

Journal

	Dr $	Cr $

[2]

Additional information

Rakesh receives rent from a tenant. The following details are available for the year ended 30 September 2021.

1 At 1 October 2020, the tenant owed rent $1200.

2 During the year ended 30 September 2021, the tenant paid rent of $9000 by bank transfer.

3 At 30 September 2021, rent of $1125 had been received in advance.

REQUIRED

(c) Prepare the rent receivable account in Rakesh's books of account.

Rent receivable account

	$		$

[4]

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Additional information

The business owns equipment which cost $24 000 when it was purchased on 1 October 2018. The policy is to provide depreciation at 20% per annum using the reducing balance method.

REQUIRED

(d) Prepare the provision for depreciation of equipment account for the year ended 30 September 2021.

Provision for depreciation of equipment account

	$		$

[3]

[Total: 15]

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3 Nibras purchases and sells goods for cash and on credit. Control accounts are used to check the accuracy of the business's purchases and sales ledgers.

The following information is available for January 2022.

1 Purchases ledger account balances at 1 January 2022 were:

	$
Amounts owed to suppliers	23 490
Amount overpaid to one supplier	320

2 Totals from the books of prime entry were as follows:

	$
Cash book	
Cash purchases	18 540
Payments to trade payables	202 950
Discounts received	4 920
Purchases journal	212 480
Returns outwards journal	3 770
General journal	
Contras to sales ledger	810

3 There were no overpaid accounts in the purchases ledger at the end of the month.

REQUIRED

(a) Prepare the purchases ledger control account for January 2022.

Purchases ledger control account

	$		$

[5]

Additional information

On 31 January 2022 the following information was available concerning trade receivables.

	$
Balance of the sales ledger control account	25 310
Total of balances in the sales ledger	23 980

The following errors were discovered. When corrected, the total of balances in the sales ledger agreed with the balance of the sales ledger control account.

1 An irrecoverable debt of $540 had been recorded as $450 in both the general ledger and the customer's sales ledger account.

2 The total of the returns inwards journal, $1390, had been omitted from the sales ledger control account.

3 The balance of a customer's account had been understated by $120.

4 A credit note, $90, issued to a credit customer had been recorded correctly in the sales return journal but posted to the debit side of the customer's account.

REQUIRED

(b) (i) Calculate the correct balance of the sales ledger control account.

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(ii) Calculate the correct total of balances in the sales ledger.

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..... [4]

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Additional information

Control accounts do not reveal every type of error.

REQUIRED

(c) State **three** types of error which are not revealed by a control account.

1 .....

2 .....

3 .....

[3]

[Total: 15]

4 G Limited manufactures products at two factories. The company uses marginal costing.

REQUIRED

(a) State **four** assumptions used in break-even analysis.

1 .....

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2 .....

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3 .....

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4 .....

..... [4]

(b) State the formula for calculating the margin of safety in units and sales value.

(i) Units

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..... [1]

(ii) Sales value

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..... [1]

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[Turn over

Additional information

At one factory a single product is made. The following budgeted details are available.

Direct materials per unit	3 kg at $5 per kg
Direct labour per unit	2 hours at $9.50 per hour
Fixed costs per month	$66 000
Selling price per unit	$48
Sales	8 000 units per month

REQUIRED

(c) Calculate the monthly margin of safety in units.

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..... [4]

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Additional information

The directors are concerned that there could be a fall in demand for this product. They plan to make some changes to reduce the product's break-even point and encourage sales.

1 Use a different grade of material. The list price of this material is 10% less per kilogram than the existing material.

2 Each unit will require 5% more kilograms of this material.

3 The supplier of materials has agreed to give a 20% trade discount.

4 Make alterations to machinery to improve efficiency at a cost of $24 000. Machinery is depreciated at 25% per annum.

5 Introduce a sales commission of $0.50 per unit.

6 Reduce the selling price by 1.5% per unit.

REQUIRED

(d) Calculate the decrease in the monthly break-even point in units if these changes are made.

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Additional information

At the other factory monthly production and sales are normally 14 000 units of a different product. This product has a variable cost of $65 per unit and a contribution of $17 per unit. The budgeted factory fixed costs are $128 000 per month.

A major customer normally purchases 5500 units per month. However, the company has been informed that no units will be required by this customer in August 2022.

The directors are considering two options.

Option A

1 Reduce production in August 2022 by 4000 units.

2 Run an advertising campaign at a cost of $2 200 to increase demand so that all production is sold.

Option B

1 Continue with normal production in August.

2 Store 5500 units in a warehouse at a cost of $6000.

3 At the end of August an overseas customer will purchase all the units in the warehouse at a special price of $70 per unit. Transport costs of $1.80 per unit will be incurred on these units.

REQUIRED

(e) Calculate the profit for August 2022 for:

(i) Option A

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(ii) Option B

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

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