



Cambridge International AS & A Level

CANDIDATE
NAME
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NUMBER

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ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 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.

2

- 1 The directors of Y Limited have provided the following balances at 30 June 2022.

	\$
6% debentures (2025–2026)	60 000
Administrative expenses	89 540
Bank overdraft	1 440
Carriage inwards	4 310
Delivery vehicles – valuation	74 000
Distribution costs	72 910
Dividends paid	6 400
Finance costs	1 800
Inventory at 1 July 2021	105 600
Office equipment – cost	54 600
Office equipment – provision for depreciation	22 300
Provision for doubtful debts	3 540
Purchases	338 200
Retained earnings	16 920
Returns inwards	7 550
Revenue	615 300
Share capital (ordinary shares of \$1 each)	80 000
Trade payables	48 650
Trade receivables	93 240

The following information is also available.

- Inventory at 30 June 2022 was valued at \$126 800.
- Inventory at 30 June 2022 included damaged goods costing \$3200 that could be sold for \$3950 after repairs costing \$910.
- The delivery vehicles have an estimated value at 30 June 2022 of \$62 000.
- Office equipment is to be depreciated at 10% per annum using the reducing balance method.
- Administrative expenses included \$1800 office rent for the three months ending 31 August 2022.
- Distribution costs of \$850 were owing at 30 June 2022.
- The 6% debentures (2025–2026) were issued in 2017.
- An irrecoverable debt of \$490 is to be written off to administrative expenses.
- The provision for doubtful debts is to be maintained at 4% of trade receivables.
- There is no interest charged on the bank overdraft.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2022.

Y Limited
Income Statement for the year ended 30 June 2022

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

Workings:

Cost of sales
Administrative expenses
Distribution costs

(b) Prepare the statement of financial position at 30 June 2022.

Y Limited
Statement of Financial Position at 30 June 2022

[10]

Additional information

The directors of Y Limited wish to repay the 6% debentures (2025–2026) early. They are considering making a rights issue of one ordinary share for every two shares held at a premium of 50%.

REQUIRED

- (c)** Advise the directors whether or not they should make a rights issue of ordinary shares to repay the debentures. Justify your answer.

..... [5]

[Total: 30]

6

- 2 Bharti owns a small business. The following information was extracted from her accounting records.

Balances at 1 July 2021

	\$
Delivery vehicles	
cost	52 000
provision for depreciation	14 000

Extract from asset register

Date of purchase	Vehicle	Cost \$
1 July 2019	DV1	18 000
1 July 2020	DV2	34 000

On 1 October 2021, Bharti purchased a new delivery vehicle (DV3) costing \$26 000. She paid \$14 500 by cheque and the balance was settled by part-exchange of the old delivery vehicle, DV1.

Bharti depreciates delivery vehicles using the straight-line method on a month-by-month basis. The estimated useful life of all delivery vehicles is five years with no residual value.

REQUIRED

- (a) Prepare the following ledger accounts for the year ended 30 June 2022.

Delivery Vehicles – Cost

Date	Details	\$	Date	Details	\$

Delivery Vehicles – Provision for depreciation

Date	Details	\$	Date	Details	\$

Disposal account

Date	Details	\$	Date	Details	\$

Workings:

(b) State **one** reason why non-current assets are depreciated, with reference to an appropriate accounting concept.

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.....

..... [2]

(c) Explain **one** difference between capital expenditure and revenue expenditure.

.....

.....

.....

..... [2]

(d) State **one** example of a:

(i) capital receipt

..... [1]

(ii) revenue receipt

..... [1]

[Total: 15]

- 3 The directors of H Limited provided the following details from the statement of financial position at 30 September 2021.

	\$
Equity and reserves	
Share capital (ordinary shares of \$0.50 each)	200 000
Share premium	50 000
Retained earnings	120 000

During the year ended 30 September 2022, the following transactions took place.

	Date	Transaction
1	1 November 2021	Paid a final dividend of \$0.06 per ordinary share.
2	1 January 2022	Made a rights issue of two ordinary shares for every five shares held at a price of \$0.60. The issue was fully subscribed.
3	1 July 2022	Paid an interim dividend of \$0.02 per ordinary share.
4	31 August 2022	Made a bonus issue of one ordinary share for every four shares held. The directors decided to leave the reserves in the most flexible form.

REQUIRED

- (a) Prepare journal entries to record transactions 1 – 4. Dates and narratives are **not** required.

Workings:

10

Journal

Item	Account	Debit \$	Credit \$
1			
2			
3			
4			

[10]

11

(b) State **three** reasons why a company may make a bonus issue of shares.

1

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2

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3

.....

[3]

(c) State **two** features of preference shares.

1

.....

2

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[2]

[Total: 15]

4 Mandeep owns two manufacturing businesses.

REQUIRED

(a) State what is meant by:

(i) Variable costs

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..... [1]

(ii) Fixed costs

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..... [1]

(iii) Semi-variable costs

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..... [1]

Additional information

One of Mandeep’s businesses manufactures three products, Ess, Tee and Ewe. The following monthly budgeted information is available for December 2022.

Per unit	Ess	Tee	Ewe
Selling price	\$90	\$105	\$150
Contribution	\$41.50	\$45.00	\$55.20
Maximum monthly demand	80 units	50 units	75 units

Budgeted fixed overheads are absorbed at \$14 per unit based on maximum monthly demand.

REQUIRED

(b) Calculate the **total** maximum contribution **and** also **total** maximum profit that Mandeep can earn in December 2022.

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..... [3]

Additional information

The business uses the same material to manufacture Ess, Tee and Ewe. The following information is available for direct material.

Per unit	Ess	Tee	Ewe
Direct material (\$6 per metre)	5 metres	6 metres	8 metres

REQUIRED

(c) Calculate the total material (**in metres**) required to meet the maximum demand in December 2022.

.....

..... [1]

Additional information

Mandeep has been told that due to a national shortage of material, he will only be able to obtain 1000 metres of material each month for the next three months.

REQUIRED

- (d)** Prepare a statement to show the maximum contribution **and** also maximum profit that Mandeep can earn in December 2022 taking account of the shortage of material.

[6]

REQUIRED

- [7]

Additional information

Mandeep is currently preparing budgets for his **other business** for the next year.

He operates a system of absorption costing and provides the following information for one unit of product.

Direct material	6 kg at \$4.80 per kg
Direct labour	Machining department 2 hours at \$9 per hour
	Assembly department 3 hours at \$8 per hour
Overheads	Machining department 2 direct labour hours 3 machine hours
	Assembly department 3 direct labour hours 0.5 machine hours

Overhead absorption rates	
Machining department	\$6.75 per machine hour
Assembly department	\$4.60 per direct labour hour

REQUIRED

- (f) Calculate the price per unit that Mandeep should charge customers in order to obtain a 20% profit margin.

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..... [5]

(g) State **three** benefits to a business of preparing budgets.

1

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2

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3

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[3]

(h) State **two** limitations of budgetary control.

1

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2

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[2]

[Total: 30]

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