Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2728706716

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **February/March 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.

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1 Nibras and Raif are in partnership. They own a car hire business.

The following balances were available at 31 December 2022.

	Debit	Credit
	$	$
Allowance for irrecoverable debts		380
Cash at bank	7370	
Capital accounts		
Nibras		180000
Raif		120000
Current accounts		
Nibras	5950	
Raif		4760
Drawings		
Nibras	19200	
Raif	12140	
Insurance	15400	
Interest on loan from Raif	750	
Loan from Raif		9000
Motor vehicle expenses	12420	
Motor vehicles		
Cost	144000	
Provision for depreciation 1 January 2022		33200
Premises		
Cost	220000	
Provision for depreciation 1 January 2022		44000
Rent receivable		6050
Repairs and maintenance	8270	
Revenue from car hire		88300
Trade receivables	21730	
Wages and salaries	18460	
Totals	485690	485690

The following additional information is available.

1 Interest at 10% per annum on the loan from Raif is accrued for the last two months of the year.

2 Insurance payments covered the period 1 January 2022 to 28 February 2023. Monthly insurance costs have remained unchanged during this period.

3 The partners have agreed that the allowance for irrecoverable debts is no longer required.

4 Rent receivable by the partnership is $550 per month. Part of the premises have been rented for the full year.

5 Motor vehicles are to be depreciated at 25% per annum using the reducing balance method.

6 Premises are to be depreciated by 2% per annum using the straight-line method.

REQUIRED

(a) Prepare the statement of profit or loss for the year ended 31 December 2022. Use the space on **page 4** to show your workings.

Nibras and Raif
Statement of profit or loss for the year ended 31 December 2022

	$	$
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Workings:

[9]

Additional information

Nibras and Raif agreed the following terms for the appropriation of profits and losses.

1 Interest on capital to be 10% per annum.

2 Nibras to receive a partnership salary of $6000 per annum.

3 Remaining profits and losses to be shared in the ratio Nibras:Raif, 3:2.

REQUIRED

(b) Prepare the appropriation account for the year ended 31 December 2022.

Nibras and Raif
Appropriation account for the year ended 31 December 2022

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Additional information

The partners would like to know what difference it would have made if they had operated without a partnership agreement during the year ended 31 December 2022.

REQUIRED

(c) Calculate by how much Nibras' current account balance at 31 December 2022 would have been different if there had been **no partnership agreement** during the year ended 31 December 2022.

.... [8]

Additional information

The partners had considered charging interest on drawings as part of their agreement.

REQUIRED

(d) State **one** reason for including interest on drawings in a partnership agreement.

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.... [1]

(e) State the double entry for recording interest on drawings.

Debit ....

Credit ....
[2]

Additional information

Nibras and Raif would like to expand their business but they require additional finance. They have considered two options:

Option 1: Nibras to introduce additional capital by selling some personal investments

Option 2: Arrange a bank loan

REQUIRED

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

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.... [7]

[Total: 30]

2 Jakoub owns a restaurant. The business's financial year end is 31 December.

The business owns many small items of kitchen equipment. The following information is available.

1 On 1 January 2022 kitchen equipment was valued at $3450.

2 Additional kitchen equipment was purchased for cash, $1680, during the year ended 31 December 2022.

3 On 31 December 2022 kitchen equipment was valued at $3950.

REQUIRED

(a) Prepare the kitchen equipment account for the year ended 31 December 2022.

Kitchen equipment

		$			$

[4]

(b) State **two** reasons why the reducing balance method of depreciation might be chosen by a business for depreciating non-current assets.

1 ....

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2 ....

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[2]

Additional information

On 1 January 2022, a new delivery vehicle was purchased in part exchange for the business's old delivery vehicle. A payment of $22 500 was made. The old delivery vehicle had originally cost $24 000 when it was purchased on 1 January 2020. The old delivery vehicle was part exchanged at net book value.

Delivery vehicles are depreciated by 25% per annum using the reducing balance method of depreciation.

REQUIRED

(c) Prepare a journal entry to record the charge for depreciation of vehicles for the year ended 31 December 2022. A narrative is **not** required.

Journal

	Dr $	Cr $

Workings:

[5]

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

(i) capital expenditure

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.... [1]

(ii) capital receipts.

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.... [1]

Additional information

Jakoub is preparing his business's financial statements for the year ended 31 December 2022. The following additional information is available.

Payments	$
Purchase of new ovens	5600
Installation costs for new ovens	400
Repairs to electrical equipment	2600
Maintenance of computer equipment	300
Extension to restaurant	85000
Decoration of restaurant extension	3200

Receipts	$
Bank loan	25000
Additional capital provided by Jakoub	40000
Proceeds from the disposal of unwanted furniture	2800

REQUIRED

(e) Calculate the total amount for **each** of the following:

(i) capital expenditure

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.... [1]

(ii) capital receipts.

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.... [1]

[Total: 15]

3 Haniya wished to compare some ratios for her business. The following information is available for the year ended 30 November 2021.

Acid test ratio	0.8:1
Trade receivables turnover (days)	34 days
Trade payables turnover (days)	36 days

The following extract was taken from the statement of financial position at 30 November 2022.

	$
Current assets	
Inventory	11 500
Trade receivables	9 600
Cash at bank	6 250
	27 350
Current liabilities	
Bank loan	10 000
Other payables	1 720
Trade payables	6 580
	18 300

For the year ended 30 November 2022 credit sales totalled $94 800 and credit purchases totalled $88 300.

REQUIRED

(a) Calculate **each** of the following ratios for the year ended 30 November 2022.

(i) Acid test ratio (to **two** decimal places)

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.... [2]

(ii) Trade receivables turnover (days)

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.... [2]

(iii) Trade payables turnover (days)

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.... [2]

(b) Explain the importance of the acid test ratio to a business.

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.... [2]

(c) Identify **two** ways in which the owner of a business could improve the acid test ratio.

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2 ....

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[2]

(d) Discuss the changes that have occurred in the trade receivables turnover (days) ratio and the trade payables turnover (days) ratio for Haniya's business during the year ended 30 November 2022.

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[Total: 15]

4 G Limited manufactures a single product type at one of its factories. The company uses marginal costing.

REQUIRED

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

(i) contribution per unit

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.... [1]

(ii) stepped costs

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.... [1]

(iii) margin of safety.

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.... [1]

(b) State **two** benefits of using marginal costing.

1 ....

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2 ....

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[2]

Additional information

The following budgeted information is available for September 2022.

Selling price per unit	$59
Direct materials per unit	8 kg at $2.70 per kg
Direct labour per unit	4 hrs at $8.20 per hour
Fixed costs per month	$18 400

All units produced are sold.

REQUIRED

(c) Calculate the monthly break-even point in units.

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.... [3]

Additional information

The directors hope to increase demand by improving the product.

The following information is available.

1 Current production of the original product is 7200 units per month. This represents 90% of normal capacity.

2 Direct materials will cost $3 per kg for the improved product. Each unit of the improved product will require 15% more material.

3 The selling price of the improved product will be $65.

4 It is expected that monthly production will increase by 20%.

5 The factory can operate in overtime conditions. Direct labour is paid 1.5 times the normal rate in overtime conditions.

6 An additional machine costing $40 000 will be required. Non-current assets are depreciated by 15% per annum.

REQUIRED

(d) Prepare a marginal costing statement to show the monthly forecast profit if the improved product is made.

.... [7]

Additional information

At a **second** factory the company manufactures **another** single product type. The following information is available.

	$
Direct material per unit	13
Direct labour per unit	11
Other variable costs per unit	3
Selling price per unit	42
Fixed costs **per week**	12 000

The factory uses 10 machines, each producing 300 units per week. The directors are aware that problems have arisen with 4 machines which require urgent repairs. These machines will be taken out of production for 8 weeks.

The directors are considering **two** options.

Option A: Buy in goods
The goods will be provided by an overseas supplier at $34 per unit.
Total delivery costs of $4200 for 8 weeks will be charged.
The supplier can only provide 75% of the lost production.

Option B: Hire replacement machines
Only two replacement machines are available at a cost of $150 per machine per week.
The machines will only be available for 7 weeks.
Staff will require training on the replacement machines at a **total** cost of $700.

REQUIRED

(e) Calculate the profit for the 8 weeks for each option.

(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 considering **both** options.

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[Total: 30]