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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

9049275285

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **October/November 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.

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1 P Limited sells electronic goods online.

The directors provided the following information.

Balances	At 31 July 2023 $	At 1 August 2022 $
8% debenture (2026)	36 000	–
Inventory	43 190	36 800
Other payables: administrative expenses	–	960
Other receivables: administrative expenses	160	1 820
Other receivables: distribution costs	1 490	–
Trade payables	25 250	29 610

Bank account extract for the year ended 31 July 2023

	$
Payments	
To credit suppliers	122 050
Administrative expenses	66 920
Distribution costs	51 730
Receipts	
From customers	284 200

The following information is also available.

1 All goods are despatched to customers immediately on receipt of payment.

2 Inventory at 31 July 2023 included damaged items that had cost $3600. One half of these items will be scrapped and have no value. The remaining items will be sold for $900 after repairs costing $420.

3 The 8% debenture (2026) was issued on 1 April 2023.

4 The charge for taxation was estimated to be $10 700.

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(a) Prepare the statement of profit or loss for the year ended 31 July 2023. Use the space provided to show your workings.

P Limited
Statement of profit or loss for the year ended 31 July 2023

	$

Workings:

Cost of sales
Administrative expenses
Distribution costs

[15]

Additional information

1 Balances at 1 August 2022

	$
Share capital (ordinary shares of $0.50 each)	120 000
Share premium	19 000
Retained earnings	23 560

2 On 1 September 2022, a bonus issue of shares was made of one ordinary share for every six shares held. Reserves were maintained in their most flexible form.

3 On 1 January 2023, a final dividend of $0.07 per share was paid on all shares in issue at 1 August 2022.

4 On 31 March 2023, a rights issue of one ordinary share for every four shares held was made at a premium of $0.15 per share. The issue was fully subscribed.

(b) Prepare the statement of changes in equity for the year ended 31 July 2023.

P Limited
Statement of changes in equity for the year ended 31 July 2023

	Share capital $	Share premium $	Retained earnings $	Total $
At 1 August 2022	120 000	19 000	23 560	162 560

[6]

(c) State **two** examples of revenue reserves of a limited company.

1 .....

2 .....

[2]

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(d) Advise the directors whether or not they were correct to make a bonus issue of shares rather than make a new issue of shares. Justify your answer.

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[Total: 30]

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[Turn over

2 Simon formed a parcel delivery business on 1 July 2021.

On 1 July 2021, he purchased a delivery vehicle for $29 000 from his business bank account.

He decided to depreciate delivery vehicles on a monthly basis using the straight-line method. He estimated that the delivery vehicle would have a useful working life of four years and would have a residual value of $5000.

On 1 November 2022, a new delivery vehicle was purchased at a cost of $44 000. The old delivery vehicle was part exchanged at a value of $16 800. The balance was settled by a bank loan repayable over two years.

He estimated that the new delivery vehicle would have a useful working life of five years and would have a residual value of $8000.

(a) State **two** factors that cause the value of non-current assets to depreciate.

1 .....

2 .....

[2]

(b) Prepare the following accounts for the year ended 30 June 2023. Use the space provided to show your workings.

Delivery vehicles at cost

Date	Details	$	Date	Details	$

Delivery vehicles provision for depreciation

Date	Details	$	Date	Details	$

Workings:

[8]

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(c) Calculate the profit or loss on disposal of the delivery vehicle sold on 1 November 2022.

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(d) Explain why it may be more appropriate to depreciate motor vehicles using the reducing balance method rather than the straight-line method.

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[Total: 15]

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3 Malik prepared a sales ledger control account for July 2023. However, the balance of the control account did not agree with the total of customers' account balances in the sales ledger.

He provided the following information.

	$
At 1 July 2023	
Sales ledger control account balance	76 250
For the month of July 2023	
Contra purchases ledger	420
Sales journal	69 634
Cash book: customer cheques dishonoured	22
Cash book: discounts allowed	892
Journal: irrecoverable debts	410
Cash book: receipts from credit customers	74 118
Sales returns journal	2 090

The following errors were discovered which accounted for the difference.

1 The balance of a sales ledger customer's account had been undercast by $300.

2 The total of the sales returns journal had been overcast by $580.

3 A journal entry to write off a customer account balance of $95 as irrecoverable had been correctly entered in the general ledger but had been posted to the debit side of the customer's account.

4 A cheque received from a customer, $320, had been correctly entered in the cash book but had been posted to the debit side of the customer's account as $230.

5 A further dishonoured cheque from a customer, $215, had not been entered in the cash book but had been correctly entered in the customer's account.

The list of customer account balances extracted from the sales ledger totalled $69 211.

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(a) Prepare the sales ledger control account for the month of July 2023, taking into account the errors discovered. Dates are **not** required.

Sales ledger control account

Details	$	Details	$

[9]

(b) Prepare a schedule of the corrected sales ledger account balances.

	Increase $	Decrease $	Total $
Per original list			69 211
Corrected balances			

[4]

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(c) State **two** limitations of preparing a control account.

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[2]

[Total: 15]

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4 Andreas owns a business manufacturing bicycles. The business operates two production departments, Machining and Assembly, and two service departments, Stores and Maintenance.

The following information is available for **one** bicycle.

Direct materials	$45.60
Direct labour: Machining ($10 per hour)	30 minutes
Direct labour: Assembly ($12 per hour)	105 minutes
Machine hours: Machining	20 minutes
Machine hours: Assembly	15 minutes

Total budgeted overheads for the year ended 31 August 2023 are as follows:

	$
Indirect wages	420 000
Factory rent and rates	30 000
Machine overheads	22 000

The following information is also available.

	Production departments		Service departments	
	Machining	Assembly	Stores	Maintenance
Floor space (square metres)	4 000	5 600	1 800	600
Number of orders from stores	2 100	1 600		500
Maintenance call outs	210	40		
Budgeted direct labour hours	22 200	77 700		
Budgeted machine hours	34 300	25 700		
Number of indirect employees	4	12	2	2

Machine overheads are apportioned on the basis of machine hours.

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(a) Complete the table to show the apportionment of the budgeted overheads for the year ended 31 August 2023.

		Production departments		Service departments	
	Total $	Machining $	Assembly $	Stores $	Maintenance $
Indirect wages	420 000				
Factory rent and rates	30 000				
Machine overheads	22 000				
Total overheads	472 000				
Apportion Stores					
Subtotal					
Apportion Maintenance					
Total overhead costs					

[6]

(b) Calculate, to **two** decimal places, an overhead absorption rate for **each** production department, using a suitable basis.

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Additional information

The actual results for the year ended 31 August 2023 were as follows:

	Machining	Assembly
Total overheads	$226 952	$267 465
Direct labour hours	28 450	72 580
Machine hours	44 120	15 270

(c) Calculate the over-absorption or under-absorption of overheads for **each** production department.

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Additional information

Andreas has been approached by a new customer wishing to make a special order for 120 bicycles with modifications to the customer's own specification. In order to complete the order, the following would apply for the manufacture of one bicycle.

1 The total material cost would increase by 30%.

2 The direct labour hours in the machinery department would increase by 50% and an additional 15 minutes of direct labour hours would be required in the assembly department.

3 Due to workers in the assembly department already working at full capacity, these workers would have to work overtime to complete the order at a premium of 25% on the usual direct labour rate.

(d) Calculate the **direct cost** of producing **one** bicycle for the special order.

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Additional information

In order to remain competitive, Andreas wishes to achieve a 30% gross profit margin on all work.

(e) Prepare a statement to show the total selling price that Andreas should quote to the customer in order to achieve a 30% gross profit margin on the order.

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Additional information

Having received the quotation from Andreas, the customer has stated that he will commit to a regular monthly order of 100 of the special bicycles if Andreas will offer a 10% discount on the quoted price and allow 2 months' credit.

Andreas's business is successful, though managing cash flow is often difficult.

(f) Advise Andreas whether he should accept the terms offered by the customer. Justify your answer.

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