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Cambridge Assessment International Education

# Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

*6055559797 1*

**ACCOUNTING** **9706/23**

Paper 2 Fundamentals of Accounting **October/November 2024**

**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** The company accountant of J plc had prepared draft financial statements for the year ended 30 June 2024. The following balances remained in the books of account.

| | $ |
|---|---|
| 6% bank loan (2024) | 11 000 |
| Bank | 1 980 |
| Inventory | 83 900 |
| Other payables | 3 150 |
| Other receivables | 5 320 |
| Plant and equipment | |
| Cost | 137 000 |
| Provision for depreciation | 66 940 |
| Property | |
| Cost | 60 000 |
| Provision for depreciation | 8 160 |
| Retained earnings | 122 300 |
| Share capital (ordinary shares of $1 each) | 70 000 |
| Share premium | 4 280 |
| Taxation | 13 600 |
| Trade payables | 21 450 |
| Trade receivables | 32 680 |

The draft statement of profit or loss showed a profit for the year of $83 250.

It has since been discovered no account had been taken of the following errors and omissions.

1 Closing inventory had been understated by $2 000.

2 Administrative expenses included an interim dividend of 3% that had been paid on 1 April 2024.

3 An amount of $1 250 prepaid on distribution costs had been treated as an accrual.

4 The 6% bank loan (2024) had been repaid on 30 June 2024.

5 The property was purchased on 1 July 2021 and had been correctly depreciated for each of the two years ended 30 June 2023 using the straight-line method at 2% per annum. However, the depreciation charge on the property for the year ended 30 June 2024 had been incorrectly calculated using the reducing balance method at 10% per annum.

6 The taxation liability at 30 June 2024 had been over estimated by $3 000.

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**(a)** Calculate the corrected carrying value of Property at 30 June 2024.

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**(b)** Calculate the revised profit for the year ended 30 June 2024.

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Workings:

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**(c)** Prepare the statement of financial position at 30 June 2024. Use the space provided on **page 5** to show your workings.

J plc
Statement of financial position at 30 June 2024

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Workings:

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**Additional information**

The directors of J plc are aware that one factor causing the value of plant and equipment to depreciate is wear and tear.

**(d)** State **two other** factors that may cause the value of plant and equipment to depreciate.

1 .....

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2 .....

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[2]

**(e)** State the formula for **each** of the following ratios.

| Ratio | Formula |
|---|---|
| Profit margin | |
| Return on capital employed | |

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**Additional information**

Having calculated both these ratios, the directors are pleased that both achieve the company's targets.

They are wishing to expand and are planning to acquire additional plant and equipment with an estimated cost of $80 000. They are considering two financing options but are also concerned as to the effect that these will have on the ratios.

Option 1 Request a five-year bank loan to purchase the equipment outright.

Option 2 Take out a three-year lease agreement for the equipment.

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

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**2** Alex owns a wholesale business purchasing and selling goods on cash and on credit. Control accounts are used to check the accuracy of the individual purchases and sales ledger accounts.

The following information is available for September 2024.

1 Sales ledger account balances on 1 September 2024:

| | $ |
|---|---|
| Amounts owed by customers | 64 280 |
| Amount overpaid by one customer | 215 |

2 Totals from the books of prime entry:

| | $ |
|---|---|
| Cash book | |
| Cash sales | 15 230 |
| Receipts from credit customers | 196 380 |
| Discounts allowed | 2 440 |
| Refund of overpayment | 215 |
| Sales journal | 188 740 |
| Sales returns journal | 2 560 |
| General journal | |
| Contras to purchases ledger | 1 150 |

**(a)** Prepare the sales ledger control account for September 2024.

Sales ledger control account

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

On 30 September 2024 the following information was available relating to trade payables.

| | $ |
|---|---|
| Total of balances in the purchases ledger | 41 350 |
| Balance of the purchases ledger control account | 40 592 |

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

1 The total of the purchases returns journal, $1 560, had been entered in the purchases ledger control account as $1 650.

2 The balance of a trade payables account had been overstated by $80.

3 A refund of $320 to a credit supplier had been recorded correctly in the cash book but posted to the credit side of the supplier's account.

4 The total of the discounts received column in the cash book had been understated by $68.

5 Interest charged by a supplier on an overdue account, $16, had been omitted from the purchases ledger control account.

**(b) (i)** Calculate the corrected total of balances in the purchases ledger.

| | $ |
|---|---|
| Original total | 41 350 |
| | |
| | |
| | |
| Corrected total | |

[3]

**(ii)** Calculate the corrected balance of the purchases ledger control account.

| | $ |
|---|---|
| Original balance | 40 592 |
| | |
| | |
| | |
| | |
| Corrected balance | |

[4]

[Total: 15]

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**3** The following balances have been extracted from the records of N plc at 1 October 2023.

| | $ |
|---|---|
| Share capital (ordinary shares of $0.50 each) | 250 000 |
| Share premium | 13 400 |
| Retained earnings | 71 800 |

The following transactions took place during the year ended 30 September 2024.

| | |
|---|---|
| 1 November 2023 | Issued 50 000 ordinary shares at $0.70 each. |
| 1 March 2024 | Made a rights issue of one ordinary share for every five shares held at that date at an issue price of $0.65. The issue was fully subscribed. |
| 1 May 2024 | Paid a final dividend of $0.02 per share on all shares in issue at that date. |
| 1 July 2024 | Made a bonus issue of one ordinary share for every eight shares held at that date. |

The profit for the year ended 30 September 2024 was $41 800.

**(a)** Prepare the following accounts for the year ended 30 September 2024. Dates are **not** required.

Share capital

| Details | $ | Details | $ |
|---|---|---|---|
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Share premium

| Details | $ | Details | $ |
|---|---|---|---|
| | | | |
| | | | |
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Retained earnings

| Details | $ | Details | $ |
|---|---|---|---|
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Workings:

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**(b)** State **two** features of a debenture.

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

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**4** H Limited is a service company providing administrative support to businesses. The company operates two separate departments, Payroll services and Accountancy services.

The directors are currently preparing budgets for the year ending 31 December 2025.

The company's fixed overheads include the salaries of the employees.

Each department has five employees working 48 weeks each year, 40 hours per week.

The Payroll services department employees earn $18 per hour whilst the Accountancy services department employees earn $21 per hour.

The company's other fixed overheads of $68 000 are apportioned $35 000 to the Payroll services department and $33 000 to the Accountancy services department.

Each department also incurs variable overheads of $7 per hour.

The company charges its clients $35 per hour for all services supplied.

**(a)** Calculate for the **Payroll services department** only:

**(i)** the total number of chargeable hours available for the year ending 31 December 2025

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**(ii)** the break-even point in **hours**

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**(iii)** the number of chargeable hours required to produce a profit of $45 000 for the year ending 31 December 2025.

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**Additional information**

Due to poor motivation, the Payroll services department is expected to work at 85% capacity during the year ending 31 December 2025.

**(b)** Prepare a budgeted marginal cost statement to show the Payroll services department profit for the year ending 31 December 2025.

H Limited Payroll services department
Budgeted marginal cost statement for the year ending 31 December 2025

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**Additional information**

The directors of H Limited are of the opinion that the performance of the Payroll services department must be improved. Two opportunities for further development have arisen.

Option 1

The company has been approached by a competitor business wishing to dispose of all of its payroll work. The extra work would require an additional 4 180 chargeable hours in the department over and above the **total** number of chargeable hours available.

In order to take over this work, H Limited would have to employ two new employees and would result in the department's capacity being over 100%.

Overtime is paid at a premium of 50%. In order to increase motivation and to retain their current and new staff, the directors feel that they would have to increase the fixed salaries to $21 per hour, the same rate earned by the Accountancy services department staff.

Option 2

The company has also been approached by a large overseas company offering to process all of the payroll work for a fixed fee of $390 000 per annum.

If the directors choose this option, the Payroll services department would be closed down. H Limited would continue to charge its clients an annual fee for providing the data. This would be based on a 22% mark up on the cost of the annual fixed fee charged.

**(c)** Calculate the number of overtime **hours** required for the Payroll services department for the year ending 31 December 2025 if the directors choose **Option 1**.

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**(d)** Prepare a budgeted marginal cost statement to show the Payroll services department profit for the year ending 31 December 2025 if the directors choose **Option 1**.

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**(e)** Calculate the Payroll services department contribution for the year ending 31 December 2025 if the directors choose **Option 2**.

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**Additional information**

The directors require each department to make a profit of $45 000 for the year ending 31 December 2025. The Accountancy services department is budgeted to make a profit of $49 800 for the year.

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

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**Additional information**

The directors make use of cost–volume–profit analysis in the decision-making process.

**(g)** State **three** limitations of cost–volume–profit analysis.

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