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CAMBRIDGE
International Education

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CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

1195914680

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **May/June 2026**

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. Do **not** use correction fluid or tape.
- 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 Zahir owns a service business, Airport Transfers, providing a taxi service for customers travelling to and from airports. He has **not** maintained full accounting records.

Customers either pay by cash or they are allowed a 30-day credit term.

Credit customers who pay within 20 days are allowed a cash discount of 2.5%.

The following are details of the revenue of the business for the year ended 31 December 2025.

	$
amounts due from credit customers on 1 January 2025	4 940
receipts from credit customers during the year ended 31 December 2025	47 580
amounts due from credit customers on 31 December 2025	8 320
receipts from cash customers during the year ended 31 December 2025	14 800

One-quarter of receipts from credit customers were received within 20 days.

A debt of $145 was written off as irrecoverable during the year.

(a) Calculate the **total** revenue of the business for the year ended 31 December 2025.

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Additional information

Zahir has started to prepare a cash account as he is aware that some receipts from cash customers may have been stolen.

Cash account

	$		$
receipts from cash customers not banked	11 800	wages of office assistant	5 800
irrecoverable debt recovered	80	general expenses	1 050
		drawings	4 320

The balance of cash in hand has increased by $350 during the year.

The amount of any cash stolen is **not** covered by insurance.

(b) Calculate the amount of cash stolen.

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Additional information

The following information is available for motor vehicles.

1 The business owned two motor vehicles on 1 January 2025.

	date of purchase	**cost $**
motor vehicle A	1 January 2023	32 000
motor vehicle B	1 July 2024	36 000

2 On 1 October 2025, Zahir disposed of motor vehicle A for $16 300. On the same day, Zahir purchased motor vehicle C for $38 000.

3 Motor vehicles are depreciated by 20% per annum using the straight-line method on a month-by-month basis.

(c) Calculate the profit or loss made on the disposal of motor vehicle A.

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Additional information

The business also owned some office equipment which should be depreciated by $380.

The bank account of the business was used to pay the following expenses:

	$
general expenses	11 320
rent of premises	6 200
wages of drivers	18 860

The following information is available about expenses:

	at 31 December 2025 $
rent of premises	510 prepaid
wages of drivers	1150 owing

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(d) Prepare the statement of profit or loss for the year ended 31 December 2025.

Airport Transfers
Statement of profit or loss for the year ended 31 December 2025

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Additional information

Zahir is concerned that some credit customers do not settle their accounts within the credit period of 30 days. He is proposing to introduce a computerised system of accounting.

(e) Advise Zahir whether or not he should introduce a computerised system of accounting. Justify your answer by considering the advantages and disadvantages of this proposal.

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2 Naila is a retailer. All sales are on a cash basis; all purchases are made on credit.

The following details are available for the year ended 31 December 2024.

revenue	$240 000
gross profit margin	40%
rate of inventory turnover	8 times
inventory at 1 January 2024	$16 400
inventory at 31 December 2024	$19 600
trade payables at 31 December 2024	$14 400

(a) Calculate the following for the year ended 31 December 2024:

(i) cost of sales

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(ii) purchases.

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(b) Calculate the trade payables turnover (days) for the year ended 31 December 2024, stating the formula used.

formula	calculation

[2]

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Additional information

During the year ended 31 December 2025, the following results were achieved compared to the year ended 31 December 2024.

1 Revenue increased by 20%.

2 The gross profit margin was reduced to 35%.

3 The rate of inventory turnover increased to 9 times.

(c) Prepare the **trading section** of the statement of profit or loss for the year ended 31 December 2025.

Naila
Statement of profit or loss for the year ended 31 December 2025

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Workings:

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Additional information

Naila wishes to further improve the rate of inventory turnover. She is proposing to stop dealing in any slow-selling items.

(d) Advise Naila whether or not she should go ahead with her proposal. Justify your answer by considering the advantages **and** disadvantages of the proposal.

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3 J Limited's financial year ended on 31 December 2025.

The following information was available after the preparation of the company's statement of profit or loss for the year ended 31 December 2025.

	$
8% debentures (repayable 2026)	90 000
cash and cash equivalents	28 700
draft profit for the year	58 600
inventory	51 800
plant and equipment at carrying value	160 000
property at valuation	736 000
retained earnings at 1 January 2025	157 200
revaluation reserve	65 000
share capital: ordinary shares of $0.25 each	450 000
share premium	175 000
trade and other payables	34 100
trade and other receivables	53 400

The following errors and omissions were found when preparing this information:

1 No entries had been made to record a bonus issue of shares made on 1 November 2025. The bonus issue was of 2 ordinary shares for every 3 ordinary shares in issue at this date. It had been decided that reserves should be left in their most flexible form.

2 On 31 December 2025:

- The allowance for irrecoverable debts had been increased by $300 but should have been decreased by $100.
- Depreciation of plant and equipment had been charged at 20% per annum, using the reducing balance method. The correct depreciation rate is 15% per annum.
- No account had been taken of the tax on profit estimated at $11 700.

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(a) Calculate the revised profit for the year ended 31 December 2025.

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Workings:

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(b) Calculate the balance of retained earnings as at 31 December 2025.

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Workings:

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(c) Prepare the statement of financial position at 31 December 2025.

J Limited
Statement of financial position at 31 December 2025

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4 Y Limited is a manufacturing company which makes a range of food products. The company uses absorption costing.

The factory has two production departments: baking and packaging. There are also two service departments: stores and canteen.

Some budgeted overheads have already been allocated to departments as follows:

		production departments		service departments	
	total $	**baking $**	**packaging $**	**stores $**	**canteen $**
overheads allocated	34 500	17 300	8 200	3 900	5 100

The following budgeted overheads for July 2026 are to be apportioned between the departments.

	$
depreciation of machinery	18 700
power	4 800
rent	11 000

The following additional information is available:

		production departments		service departments	
	total	**baking**	**packaging**	**stores**	**canteen**
cost of machinery ($)	93 500	55 000	22 000	5 500	11 000
power usage (kWh)	30 000	18 000	4 800	1 200	6 000
factory floor area (m^2)	1 000	540	280	80	100

Reapportionment of the service department overheads is to be based on the following budgeted information for July 2026.

	production departments		service departments	
	baking	**packaging**	**stores**	**canteen**
issues from stores	40	50	–	30
number of employees	21	9	–	–

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(a) Complete the table to show the apportionment of overheads and the reapportionment of service department overheads.

		production departments		service departments	
	total $	**baking $**	**packaging $**	**stores $**	**canteen $**
overheads allocated	34 500	17 300	8 200	3 900	5 100
depreciation of machinery	18 700				
power	4 800				
rent	11 000				
total	69 000				

[7]

Additional information

The following budgeted information is available for the production departments for July 2026.

	baking	**packaging**
labour hours	3360	820
machine hours	5800	630

(b) Calculate, to **two** decimal places, the overhead absorption rates for **each** of the two production departments.

baking department	
packaging department	

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Additional information

In a recent month, overheads were over-absorbed in the packaging department.

(c) State **two** reasons why overheads could be over-absorbed in the packaging department.

1 .....

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2 .....

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[2]

Additional information

Y Limited has received an order for products to be produced in July 2026. The order will require the following:

direct materials	5 kg at $6.20 per kg
direct labour: baking department	8.5 hours at $11.50 per hour
direct labour: packaging department	3.5 hours at $11.50 per hour
machine hours: baking department	9.5 hours
machine hours: packaging department	2.7 hours

The company's policy is to achieve a gross profit margin of 50%.

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(d) Calculate the selling price of the order.

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Additional information

Currently, the factory is operating at full capacity. However, the directors are concerned that some regular customers have indicated they may reduce demand in future months, which could reduce output to 96%.

The directors have been approached by a new customer who is prepared to place an order which will require 8% of one month's total output. However, the customer expects to be offered a special price, reducing the gross profit margin to 40%.

(e) Advise the directors whether or not this order should be accepted. Justify your answer by considering the advantages and disadvantages of accepting the order. Calculations are **not** required.

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Additional information

The stores department uses the weighted average cost (AVCO) method to value inventory. Inventory is managed using the just in time (JIT) system.

(f) State **two** features of the AVCO method of inventory valuation.

1 .....

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[2]

(g) Explain **one** advantage and **one** disadvantage of the JIT system of inventory management.

advantage .....

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disadvantage .....

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