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CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

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ACCOUNTING **9706/23**

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 H plc provided the following information for the year ended 31 December 2025.

	debit $	**credit $**
8% debentures (2033)		40 000
administrative expenses	34 090	
advertising	24 500	
allowance for irrecoverable debts at 1 January 2025		1 560
bank loan interest	12 240	
cash and cash equivalents	16 420	
cost of sales	236 830	
directors' remuneration	64 500	
distribution costs	20 890	
dividends paid	30 000	
inventory at 31 December 2025	36 480	
motor vehicle expenses	15 880	
motor vehicles and equipment at carrying value at 1 January 2025	406 000	
property at cost at 1 January 2025	500 000	
retained earnings at 1 January 2025		156 920
returns inwards	2 770	
revenue		535 630
share capital: ordinary shares of $0.50 each		600 000
share premium		90 000
trade payables		21 290
trade receivables	44 800	
totals	1 445 400	1 445 400

The following information is also available.

1 The valuation of inventory on 31 December 2025 did **not** take account that a credit customer had been sent some goods on a sale or return basis. This had been recorded as a sale. These goods have a selling price of $9600 and have a gross profit margin of 50%.

2 Advertising covers the period from 1 September 2025 to 30 April 2026. Advertising is a distribution cost.

3 The allowance for irrecoverable debts should be maintained at 5% of trade receivables. Administrative expenses should be adjusted for any change in the allowance for irrecoverable debts.

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4 All costs relating to motor vehicles and equipment are allocated: 60% distribution costs, 40% administrative expenses.

5 Motor vehicle expenses include $8000 which should be regarded as capital expenditure. The payment was made on 1 January 2025.

6 Motor vehicles and equipment should be depreciated by 15% per annum by using the reducing balance method. No depreciation is charged on property.

7 Directors' remuneration is an administrative expense.

8 The 8% debentures (2033) were issued on 1 October 2025. Interest on debentures will be paid at six-monthly intervals in arrears.

9 The bank loan interest relates to a bank loan which was repaid during 2025.

10 Provision should be made for taxation of $15 700.

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

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

	$
revenue	
cost of sales	
gross profit	
distribution costs	
administrative expenses	
profit from operations	
finance costs	
profit before tax	
tax	
profit for the year	

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Workings:

revenue
cost of sales
distribution costs
administrative expenses
finance costs

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Additional information

1 On 1 December 2025, the directors had made a bonus issue of 2 ordinary shares for every 5 ordinary shares held at this date. The issue had been made so as to maintain reserves in their most flexible form. The bonus issue had **not** yet been recorded in the books of account.

2 On 31 December 2025, it was decided to revalue property at $650 000.

(b) Prepare an extract from the statement of financial position at 31 December 2025 to show the **equity and liabilities sections only**.

H plc
Statement of financial position at 31 December 2025

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Workings:

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Additional information

The directors wish to improve the company's profitability. They are considering two options.

Option A: extend the range of goods available for sale.

Option B: increase the mark-up on all goods sold by 4%.

(c) Advise the directors which option they should choose. Justify your choice by discussing the advantages and disadvantages of **each** option.

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2 Faisal received a bank statement for the month ended 30 November 2025. The bank statement showed his business had an overdraft of $1463 on that date, but the cash book showed a debit balance of $372.

A comparison of the bank statement and cash book (bank columns) revealed the following:

1 The bank statement showed an entry for bank charges of $102 which had **not** been recorded in the cash book.

2 At the end of the month, there were unpresented cheques: K Baker $460 and L Hardy $587.

3 The balance of the cash book had been understated by $140.

4 A cheque received from a customer, J Limited, for $182 had been dishonoured by the bank. It was correctly recorded in the bank statement but had been entered on the wrong side of the cash book.

5 The bank statement included a direct debit of $249 for insurance. This should have been charged to Faisal's personal account and **not** the business bank account.

6 A standing order of $337 for rent had been included in the bank statement but had been omitted from the cash book.

7 Cash sales of $1970 had been paid into the bank on 30 November 2025 and recorded in the cash book. This transaction had **not** yet been recorded by the bank.

(a) Prepare an updated cash book at 30 November 2025.

Cash book (bank columns)

date	details	$	date	details	$
Nov 30	balance b/d	372			

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(b) Prepare a bank reconciliation statement at 30 November 2025.

Bank reconciliation statement

	$	$
balance shown on bank statement overdrawn		(1 463)

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(c) Identify **two** features of a standing order payment.

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(d) Explain **two** reasons why it is important for a business to be able to prepare complete and accurate financial statements.

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3 Zain's business financial year ended on 31 December 2025. On this date, he prepared a trial balance and the totals did **not** agree. The debit column total was $2349 **less than** the credit column total.

Zain does **not** maintain control accounts.

So far, the following errors have been discovered.

1 The balance of the purchases returns account was overstated by $609.

2 An invoice for $1460, received from H Limited for purchases, had been entered in the book of prime entry as $1640.

3 A credit note for $157, sent to C Limited, had been correctly entered in the book of prime entry but entered on the wrong side of the personal account.

4 The owner had taken goods for his own use valued at a cost of $450. This transaction had been recorded as follows: debit sales $450, credit drawings $450.

(a) Prepare journal entries to correct the errors. Narratives are **not** required.

General journal

details	debit $	credit $

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Additional information

Zain is aware that **not** all the errors have been discovered and that a balance remains on the suspense account.

(b) Calculate the balance that remains on the suspense account after the correction of errors 1 to 4, clearly stating whether it is a debit balance or a credit balance.

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Additional information

Before the errors were corrected, the draft profit for the year ended 31 December 2025 had been calculated as $11 480.

(c) Calculate the revised profit or loss for the year ended 31 December 2025 **after** errors 1 to 4 had been corrected.

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4 M Limited is a manufacturing company which uses marginal costing at both of its production centres.

At one of the factories, a single type of product is made. The following information is available about the product.

	cost per unit $
direct materials: 4 kg	24
direct labour: 7 hours	77
fixed costs	33

The factory capacity is 12 000 units per month. Currently, the factory is working at full capacity, and all units manufactured are sold for $158 per unit.

(a) Calculate each of the following:

(i) break-even point in units

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(ii) monthly profit.

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(b) State **three** limitations of break-even analysis.

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Additional information

The directors are considering making the following changes to improve the quality of the product.

1 Use higher-grade materials which will cost an extra $0.50 per kilogram. The same quantity of materials will be required per unit.

2 Some adjustments will be required to machinery which will increase monthly depreciation charges by $30 000.

3 Direct labour costs will be unaffected.

4 It is expected that production levels and sales levels will remain unchanged.

(c) Calculate the **change** in the break-even point in **units** per month if the plans are adopted.

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Additional information

At a second factory, three different products are made: Exe, Wye and Zed.

The following information is available:

per unit	Exe	Wye	Zed
selling price ($)	23	19	28
direct materials usage (kg)	1.75	2	2.25
direct labour ($)	9	6	11

The same direct materials, which cost $4 per kilogram, are used in making each product. Normally, direct materials are received every two weeks.

Fixed costs are budgeted to be $6200 for the month of September 2026.

The production capacity for September 2026 is as follows:

	units
Exe	300
Wye	600
Zed	700

The directors have been informed that the usual supplier can only deliver 70% of the direct materials requirement in September 2026.

The directors are planning to implement one of the following options in September 2026.

Option A: to change production to achieve the optimum profit for the month.

Option B: to order the remaining 30% of direct materials from an alternative supplier who will charge an additional $1.50 per kilogram. In addition, there will be delivery charges amounting to $800, but this supplier can make deliveries at more frequent intervals.

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(d) Calculate the budgeted profit or loss for September 2026 if option A is adopted.

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(e) Calculate the budgeted profit or loss for September 2026 if option B is adopted.

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(f) Advise the directors which option they should choose. Justify your answer by considering the advantages and disadvantages of **each** option.

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