



# Cambridge International AS & A Level

CANDIDATE  
NAME

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CENTRE  
NUMBER

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**ACCOUNTING**

**9706/22**

Paper 2 Structured Questions

**October/November 2021**

**1 hour 30 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 **16** pages. Any blank pages are indicated.

1 The following balances have been extracted from the books of P Limited at 31 August 2021.

|  | \$           |
|--|--------------|
| 5% Debentures (2022–2023)                        | 36 000       |
| Administrative expenses                          | 35 180       |
| Bank   | 4 770 Credit |
| Carriage inwards                                 | 390          |
| Delivery vehicles                                |              |
| Cost   | 89 420       |
| Provision for depreciation at 1 September 2020   | 42 200       |
| Distribution costs                               | 44 320       |
| Dividend paid                                    | 3 000        |
| Freehold property at valuation at 31 August 2020 | 66 000       |
| Interest paid                                    | 1 590        |
| Inventory at 1 September 2020                    | 22 880       |
| Purchases  | 88 900       |
| Revenue  | 216 600      |
| Retained earnings                                | 24 200       |
| Returns outwards                                 | 260          |
| Revaluation reserve                              | 6 000        |
| Share capital (ordinary shares of \$0.50 each)   | 60 000       |
| Share premium                                    | 8 500        |
| Trade payables                                   | 11 730       |
| Trade receivables                                | 32 480       |
| Wages and salaries                               | 26 100       |

The freehold property was revalued on 1 September 2020 at \$58 000. The revaluation has not yet been recorded in the books of account.

**REQUIRED**

(a) Prepare the journal entry to record the revaluation of the freehold property on 1 September 2020. A narrative is **not** required.

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..... [3]

**Additional information**

The following information is also available.

- 1 Revenue includes goods sent to a credit customer on 23 August 2021 on a sale or return basis. The directors were uncertain whether any of these goods would be returned. The selling price of the goods was \$6400, and they had been sold at a gross margin of 25%.
- 2 Inventory in P Limited's warehouse at 31 August 2021 was valued at cost, \$18 600.
- 3 Debenture interest had been paid to 30 June 2021.
- 4 Delivery vehicle licences of \$540 had been paid for the year ending 31 December 2021.
- 5 Wages and salaries of \$620 were outstanding at 31 August 2021.
- 6 Wages and salaries are to be charged as follows:

|                         |     |
|-------------------------|-----|
| Administrative expenses | 25% |
| Distribution costs      | 75% |

- 7 On 31 August 2021, a delivery vehicle was sold for \$7000. The vehicle had been purchased on 1 September 2018 for \$13 000. No entries for the sale had been made in the books of account and the sale proceeds had not yet been received.
- 8 The freehold property is used only as a distribution warehouse. Its remaining useful life at 1 September 2020 was estimated to be 40 years.
- 9 Depreciation is to be charged as follows:

| Non-current asset | Depreciation method                        |
|-------------------|--|
| Freehold property | Written off over the remaining useful life |
| Delivery vehicles | 20% per annum reducing balance             |

A full year's depreciation is charged in the year of purchase, but none in the year of disposal.

**REQUIRED**

- (b) Prepare the income statement for the year ended 31 August 2021. Use the space on the **next page** for your workings.

P Limited  
Income statement for the year ended 31 August 2021

|                         | \$ |
|-------------------------|----|
| Revenue                 |    |
| Cost of sales           |    |
| Gross profit            |    |
| Administrative expenses |    |
| Distribution costs      |    |
| Profit from operations  |    |
| Finance costs           |    |
| Profit for the year     |    |

**Workings**

Revenue

Cost of sales

Depreciation

Administrative expenses

Distribution costs

Finance costs

[15]

(c) Prepare a statement to show the balance of retained earnings at 31 August 2021 after the preparation of the income statement.

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..... [3]

**Additional information**

The directors wish to reduce the level of trade receivables.

**REQUIRED**

(d) State **two** ways in which the level of trade receivables of a business could be reduced.

1 .....  
.....  
2 .....  
..... [2]

**Additional information**

The directors have plans to expand the business and they are considering two options.

Option 1: Make a rights issue of 80 000 ordinary shares of \$0.50 each at a premium of 25%.

Option 2: Issue 8% debentures (2027–2028) to raise \$50 000.

**REQUIRED**

(e) Advise the directors which option they should choose. Justify your decision.

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[Total: 30]

- 2 Shamal maintains a full set of accounting records. He has extracted a trial balance at 30 September 2021 that does not balance and he has opened a suspense account for the difference.

Shamal has now identified the following six errors. There were no other errors.

- 1 A payment of \$169 for motor repairs had been correctly entered in the cash book but had been debited to the motor repairs account as \$196.
- 2 The purchase of new machinery, \$670, had been debited to general expenses.
- 3 Discount allowed of \$175 had been entered correctly in the cash book but had not been posted to the discount allowed account.
- 4 The sales journal was totalled at \$86 961. The total should have been \$86 741.
- 5 A cheque for \$425 received from McCann, a credit customer, had been correctly entered in the cash book but had been debited to the sales ledger control account.
- 6 The total of the discount received column in the cash book, \$490, had been entered twice on the correct side of the discount received account.

### REQUIRED

- (a) Prepare the suspense account at 30 September 2021, clearly identifying the opening balance.

#### Suspense Account

| Details | \$ | Details | \$ |
|---------|----|---------|----|
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |

[6]



(b) Complete the table to name the type of error in each of the errors 1, 2 and 3 identified by Shamal.

| Error | Type of error |
|-------|---------------|
| 1     |               |
| 2     |               |
| 3     |               |

[3]

(c) Explain **two** benefits to a business of preparing a purchases ledger control account.

- 1 .....
- .....
- .....
- .....
- .....
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[4]

(d) State **two** items that would appear on the credit side of a purchases ledger control account.

- 1 .....
- 2 .....

[2]

[Total: 15]

- 3 The following information has been extracted from the financial statements of D Limited at 30 June 2020.

|  | \$      |
|--|---------|
| Share capital (ordinary shares of \$0.50 each) | 150 000 |
| Share premium                                  | 25 000  |
| Retained earnings                              | 28 700  |

Transactions during the year ended 30 June 2021.

|                 |   |
|-----------------|---|
| 1 August 2020   | Made a rights issue of one ordinary share for every five shares held at \$0.70 per share. The issue was fully subscribed. |
| 1 December 2020 | Paid a dividend of \$0.02 per share on all shares in issue at that date.  |
| 1 March 2021    | Made a bonus issue of two ordinary shares for every nine shares held. Reserves were left in the most flexible form.       |
| 30 June 2021    | Proposed a final dividend of 2%.  |

The profit for the year ended 30 June 2021 was \$76 520.

### REQUIRED

- (a) Prepare the following ledger accounts.

#### Ordinary share capital

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
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|      |         |    |      |         |    |

Share premium

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |

Retained earnings

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |
|      |         |    |      |         |    |

[11]

(b) State **two** differences between capital reserves and revenue reserves.

- 1 .....
- .....
- 2 .....
- .....
- [2]

(c) Explain **one** reason why a company might make a bonus issue of shares.

.....

..... [2]

[Total: 15]

- 4 Hayden manufactures two products, Aye and Bee. The business operates two production departments, Machining and Finishing, and two service departments, Stores and Maintenance.

**REQUIRED**

- (a) Identify **one** possible basis of apportionment that a business could use in respect of:

- (i) rent and rates

.....

- (ii) machinery depreciation

.....

- (iii) electricity for machinery.

.....

[3]

**Additional information**

The following information is available.

|                              | Machining | Finishing |
|------------------------------|-----------|-----------|
| Number of orders from Stores | 3 200     | 1 800     |
| Maintenance call-outs        | 160       | 32        |
| Budgeted direct labour hours | 6 200     | 19 800    |
| Budgeted machine hours       | 38 600    | 9 400     |

**REQUIRED**

- (b) Complete the following table to show the apportionment of budgeted overhead costs for the year ended 30 September 2021.

|                             | Total<br>\$ | Production<br>departments |                 | Service departments |                   |
|-----------------------------|-------------|---------------------------|-----------------|---------------------|-------------------|
|                             |             | Machining<br>\$           | Finishing<br>\$ | Stores<br>\$        | Maintenance<br>\$ |
| Total apportioned overheads | 449 800     | 188 850                   | 172 850         | 53 325              | 34 775            |
| Re-apportion Stores         |             |                           |                 |                     |                   |
| Subtotal                    |             |                           |                 |                     |                   |
| Re-apportion Maintenance    |             |                           |                 |                     |                   |
| Total overheads cost        |             |                           |                 |                     |                   |

[4]

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

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..... [4]

**Additional information**

The actual results for the year ended 30 September 2021 were as follows:

|                     | Machining | Finishing |
|---------------------|-----------|-----------|
| Factory overheads   | \$265 800 | \$187 420 |
| Direct labour hours | 6 350     | 19 260    |
| Machine hours       | 36 940    | 9 810     |

**REQUIRED**

- (d) Calculate the over-absorption or under-absorption of overheads for **each** department for the year ended 30 September 2021.

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..... [4]





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