



Cambridge International AS & A Level

CANDIDATE
NAME

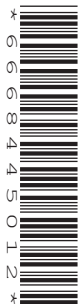
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ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 2022

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 **20** pages. Any blank pages are indicated.

- 1 The directors of Y Limited have provided the following balances at 30 June 2022.

| | \$ |
|---|---------|
| 6% debentures (2025–2026) | 60 000 |
| Administrative expenses | 89 540 |
| Bank overdraft | 1 440 |
| Carriage inwards | 4 310 |
| Delivery vehicles – valuation | 74 000 |
| Distribution costs | 72 910 |
| Dividends paid | 6 400 |
| Finance costs | 1 800 |
| Inventory at 1 July 2021 | 105 600 |
| Office equipment – cost | 54 600 |
| Office equipment – provision for depreciation | 22 300 |
| Provision for doubtful debts | 3 540 |
| Purchases | 338 200 |
| Retained earnings | 16 920 |
| Returns inwards | 7 550 |
| Revenue | 615 300 |
| Share capital (ordinary shares of \$1 each) | 80 000 |
| Trade payables | 48 650 |
| Trade receivables | 93 240 |

The following information is also available.

- 1 Inventory at 30 June 2022 was valued at \$126 800.
- 2 Inventory at 30 June 2022 included damaged goods costing \$3200 that could be sold for \$3950 after repairs costing \$910.
- 3 The delivery vehicles have an estimated value at 30 June 2022 of \$62 000.
- 4 Office equipment is to be depreciated at 10% per annum using the reducing balance method.
- 5 Administrative expenses included \$1800 office rent for the three months ending 31 August 2022.
- 6 Distribution costs of \$850 were owing at 30 June 2022.
- 7 The 6% debentures (2025–2026) were issued in 2017.
- 8 An irrecoverable debt of \$490 is to be written off to administrative expenses.
- 9 The provision for doubtful debts is to be maintained at 4% of trade receivables.
- 10 There is no interest charged on the bank overdraft.

REQUIRED

(a) Prepare the income statement for the year ended 30 June 2022.

Y Limited
Income Statement for the year ended 30 June 2022

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

Workings:

| |
|-------------------------|
| Cost of sales |
| Administrative expenses |
| Distribution costs |

Additional information

The directors of Y Limited wish to repay the 6% debentures (2025–2026) early. They are considering making a rights issue of one ordinary share for every two shares held at a premium of 50%.

REQUIRED

(c) Advise the directors whether or not they should make a rights issue of ordinary shares to repay the debentures. Justify your answer.

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..... [5]

[Total: 30]

- 2 Bharti owns a small business. The following information was extracted from her accounting records.

Balances at 1 July 2021

| | |
|----------------------------|--------|
| | \$ |
| Delivery vehicles | |
| cost | 52 000 |
| provision for depreciation | 14 000 |

Extract from asset register

| Date of purchase | Vehicle | Cost \$ |
|------------------|---------|------------|
| 1 July 2019 | DV1 | 18 000 |
| 1 July 2020 | DV2 | 34 000 |

On 1 October 2021, Bharti purchased a new delivery vehicle (DV3) costing \$26 000. She paid \$14 500 by cheque and the balance was settled by part-exchange of the old delivery vehicle, DV1.

Bharti depreciates delivery vehicles using the straight-line method on a month-by-month basis. The estimated useful life of all delivery vehicles is five years with no residual value.

REQUIRED

- (a) Prepare the following ledger accounts for the year ended 30 June 2022.

Delivery Vehicles – Cost

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
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Delivery Vehicles – Provision for depreciation

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
| | | | | | |
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Disposal account

| Date | Details | \$ | Date | Details | \$ |
|------|---------|----|------|---------|----|
| | | | | | |
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Workings:

[9]

(b) State **one** reason why non-current assets are depreciated, with reference to an appropriate accounting concept.

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..... [2]

(c) Explain **one** difference between capital expenditure and revenue expenditure.

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

(d) State **one** example of a:

(i) capital receipt

..... [1]

(ii) revenue receipt

..... [1]

[Total: 15]

- 3 The directors of H Limited provided the following details from the statement of financial position at 30 September 2021.

| | \$ |
|--|---------|
| Equity and reserves | |
| Share capital (ordinary shares of \$0.50 each) | 200 000 |
| Share premium | 50 000 |
| Retained earnings | 120 000 |

During the year ended 30 September 2022, the following transactions took place.

| | Date | Transaction |
|---|-----------------|---|
| 1 | 1 November 2021 | Paid a final dividend of \$0.06 per ordinary share. |
| 2 | 1 January 2022 | Made a rights issue of two ordinary shares for every five shares held at a price of \$0.60. The issue was fully subscribed. |
| 3 | 1 July 2022 | Paid an interim dividend of \$0.02 per ordinary share. |
| 4 | 31 August 2022 | Made a bonus issue of one ordinary share for every four shares held. The directors decided to leave the reserves in the most flexible form. |

REQUIRED

- (a) Prepare journal entries to record transactions 1 – 4. Dates and narratives are **not** required.

Workings:

Journal

| Item | Account | Debit \$ | Credit \$ |
|------|---------|-------------|--------------|
| 1 | | | |
| | | | |
| | | | |
| 2 | | | |
| | | | |
| | | | |
| 3 | | | |
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| 4 | | | |
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| | | | |

[10]

(b) State **three** reasons why a company may make a bonus issue of shares.

1

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2

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3

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[3]

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

1

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2

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[2]

[Total: 15]

4 Mandeep owns two manufacturing businesses.

REQUIRED

(a) State what is meant by:

(i) Variable costs

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..... [1]

(ii) Fixed costs

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..... [1]

(iii) Semi-variable costs

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..... [1]

Additional information

One of Mandeep’s businesses manufactures three products, Ess, Tee and Ewe. The following monthly budgeted information is available for December 2022.

| Per unit | Ess | Tee | Ewe |
|------------------------|----------|----------|----------|
| Selling price | \$90 | \$105 | \$150 |
| Contribution | \$41.50 | \$45.00 | \$55.20 |
| Maximum monthly demand | 80 units | 50 units | 75 units |

Budgeted fixed overheads are absorbed at \$14 per unit based on maximum monthly demand.

REQUIRED

(b) Calculate the **total** maximum contribution **and** also **total** maximum profit that Mandeep can earn in December 2022.

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..... [3]

Additional information

The business uses the same material to manufacture Ess, Tee and Ewe. The following information is available for direct material.

| Per unit | Ess | Tee | Ewe |
|---------------------------------|----------|----------|----------|
| Direct material (\$6 per metre) | 5 metres | 6 metres | 8 metres |

REQUIRED

(c) Calculate the total material (**in metres**) required to meet the maximum demand in December 2022.

.....

..... [1]

Additional information

Mandeep is currently preparing budgets for his **other business** for the next year.

He operates a system of absorption costing and provides the following information for one unit of product.

| | |
|-----------------|---|
| Direct material | 6 kg at \$4.80 per kg |
| | |
| Direct labour | Machining department 2 hours at \$9 per hour |
| | Assembly department 3 hours at \$8 per hour |
| | |
| Overheads | Machining department 2 direct labour hours 3 machine hours |
| | Assembly department 3 direct labour hours 0.5 machine hours |

| | |
|---------------------------|-------------------------------|
| Overhead absorption rates | |
| Machining department | \$6.75 per machine hour |
| Assembly department | \$4.60 per direct labour hour |

REQUIRED

(f) Calculate the price per unit that Mandeep should charge customers in order to obtain a 20% profit margin.

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[5]

(g) State **three** benefits to a business of preparing budgets.

- 1
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 - 2
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 - 3
 -
- [3]

(h) State **two** limitations of budgetary control.

- 1
 -
 - 2
 -
- [2]

[Total: 30]

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