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ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **October/November 2025**

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 R Limited is a retail business. The following draft statement of profit or loss was prepared for the year ended 31 December 2024.

	$
Revenue	543 280
Cost of sales	(292 400)
Gross profit	250 880
Distribution costs	(47 560)
Administrative expenses	(61 300)
Profit from operations	142 020
Finance costs	(18 540)
Profit before taxation	123 480
Taxation	(18 900)
Profit for the year	104 580

It has been discovered that some errors were made when preparing this draft statement.

1 Revenue includes the value of some goods sent on sale or return basis, with a selling price of $4200. The mark-up on these goods is 50%. The customer has **not** yet decided whether to keep these goods.

2 Sales returns of $1600 were omitted from the statement of profit or loss.

3 Purchases returns of $740 were treated as sales returns when preparing the statement of profit or loss.

4 Distribution costs include the total cost of a marketing campaign of $14 000. The marketing campaign commenced on 1 May 2024 and will end on 31 August 2025.

5 The company's policy is to depreciate furniture and equipment at 10% per annum, using the reducing balance method.

The furniture and equipment was purchased for $36 000 on 1 January 2023. Depreciation for the year ended 31 December 2023 had been correctly calculated.

Depreciation on furniture and equipment for the year ended 31 December 2024 was incorrectly calculated, using the reducing balance method, at 15% per annum.

Depreciation is divided equally between distribution costs and administrative expenses.

6 Staff wages and salaries of $27 000 had been incorrectly divided between distribution costs and administrative expenses in the ratio 2 : 1.

The correct ratio is distribution costs : administrative expenses, 3 : 2.

7 Finance costs included a full year's interest on a bank loan of $25 000 at 8% per annum. The bank loan had been received on 1 May 2024 and the correct interest rate is 6% per annum.

8 Taxation has been overstated by 5%.

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(a) Prepare, on **page 5**, a revised statement of profit or loss for the year ended 31 December 2024.

Workings:

Revenue
Cost of sales
Depreciation
Distribution costs
Administrative expenses
Finance costs

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R Limited
Revised statement of profit or loss for the year ended 31 December 2024

	$
Revenue	
Cost of sales	
Gross profit	
Distribution costs	
Administrative expenses	
Profit from operations	
Finance costs	
Profit before taxation	
Taxation	
Profit for the year	

[15]

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Additional information

The company's share capital at 31 December 2024 was $700 000, consisting of ordinary shares of $2 each.

During the year ended 31 December 2024, the following transactions took place:

2024	Transaction
1 April	Paid a final dividend of $0.10 per share on all shares in issue at that date.
1 August	Made a rights issue of two ordinary shares for every five ordinary shares held at that date at a premium of $0.50 per share. The rights issue was fully subscribed.
1 October	Paid an interim dividend of 4% on all shares in issue at that date.
30 November	Made a transfer to a general reserve of $50 000.

(b) Complete the statement of changes in equity for the year ended 31 December 2024.

R Limited
Statement of changes in equity for the year ended 31 December 2024

	Share capital $	Share premium $	General reserve $	Retained earnings $	Total $
At 1 January 2024		65 000	28 000	105 000	
At 31 December 2024	700 000				

Workings:

[8]

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Additional information

Currently all goods for resale are supplied in bulk by a local wholesaler who is only prepared to make one monthly delivery.

The directors are currently concerned about the company's cashflow and are considering two options.

Option A: Reducing inventory levels by reducing the size of the monthly order with the current supplier.

Option B: Switching to an alternative supplier who is prepared to make weekly deliveries and who is prepared to offer improved credit terms.

(c) Advise the directors which option they should choose. Justify your advice by discussing both financial **and** non-financial factors of **each** option.

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[Total: 30]

2 Samira owns a business called SJB Supplies. She prepares a bank reconciliation statement for her business at the end of each month.

On 31 January 2025, the balance in the business cash book (bank columns) was $324 debit. On the same date, the balance as per the bank statement was $160 debit.

(a) Explain why a positive balance is shown as a debit balance in a cash book and an overdrawn balance is also shown as a debit balance on a bank statement.

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Additional information

A comparison of the cash book and bank statement has revealed the following:

1 The bank statement included bank charges of $83 which had **not** yet been recorded in the cash book.

2 A cheque for $140, received from Ella, a trade receivable, had been recorded in the cash column in the cash book.

3 Cash paid into the bank amounting to $230 had been correctly recorded on the bank statement but had been entered in the cash book (bank column) as $200.

4 A dishonoured cheque for $328, received from P Limited, had been entered on the wrong side of the cash book as $238.

5 A direct debit of $214, for insurance, had been omitted from the cash book.

6 The bank had entered a cheque payment for $138, drawn by SJK Supplies, into Samira's business account in error.

7 There were unpresented cheques totalling $533.

8 Lodgements **not** yet credited by the bank totalled $186.

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(b) Prepare an updated cash book at 31 January 2025. Dates are **not** required.

Cash book (bank columns)

Details	$	Details	$
Balance b/d	324		

[7]

(c) Prepare a bank reconciliation statement at 31 January 2025.

Bank Reconciliation Statement at 31 January 2025

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Balance as per bank statement	(160)

[4]

(d) State **two** features of a direct debit.

1 .....

2 .....

[2]

[Total: 15]

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3 J Limited's non-current assets are as follows:

	Cost $	Date of purchase
Property (freehold)	840 000	1 January 2021
Machinery		
Machine 1	45 000	1 January 2022
Machine 2	54 000	1 April 2024
Motor vehicles	36 000	1 January 2023

The company's financial year ends on 31 December.

Depreciation policy is as follows:

Property	5% per annum using the straight-line method
Machinery	20% per annum using the straight-line method. Depreciation is provided on a month-by-month basis in the year of purchase and the year of disposal.
Motor vehicles	25% per annum using the reducing balance method

(a) Calculate the balance of the provision for depreciation accounts at 31 December 2024 for **each** of the following categories of non-current assets.

(i) Machinery

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(ii) Motor vehicles

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Additional information

On 1 January 2025, it was decided to revalue the freehold property to $925 000.

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

Journal

Date	Account	Dr $	Cr $

[4]

Additional information

On 1 January 2025, Machine 1 was disposed of for $20 400 received by cheque.

(c) Prepare the disposal account.

Disposal account

Details	$	Details	$

[4]

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Additional information

A director had suggested that in future it would be easier if the straight-line method of depreciation was used for all non-current assets. However, the company's accountant disagrees and says this suggestion should **not** be implemented.

(d) Explain, with reference to **one** accounting concept, why the suggestion should **not** be implemented.

Concept: .....

Explanation: .....

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[Total: 15]

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4 W Limited manufactures a single type of product at one of its factories. Currently, marginal costing is used, but the directors have been considering switching to absorption costing.

(a) Identify **two** features of absorption costing.

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2 .....

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[2]

Additional information

The following information is available for September 2024.

Quantity produced	3200 units
Quantity sold	2800 units
Selling price per unit	$84
Contribution per unit	$28
Fixed overheads per month	$52 000

There was **no** inventory on 1 September 2024.

(b) Prepare an absorption costing statement to show the profit for September 2024.

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Additional information

Using marginal costing, the profit for September has been calculated as $26 400.

(c) Explain why the profit for marginal costing is different to the profit for absorption costing.

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Additional information

At a second factory, two different types of products, Wye and Zed, are made, and marginal costing is used. The following budgeted information is available.

Per unit	Wye $	Zed $
Selling price	61	64
Direct materials	20	28
Direct labour	18	20
Fixed costs	8	8

The budgeted production and sales for one month are: Wye 4000 units and Zed 1200 units.

Demand for Zed has fallen recently and the directors have been considering the following options.

Option A

1 Stop production of Zed and increase production and sales of Wye by 15%.

2 All employees will be switched to producing Wye instead of Zed. These employees will need retraining at a cost of $3000.

3 The supplier of materials for Wye will give a larger trade discount as a result of increased orders. Currently the supplier gives a 20% trade discount. This will increase to 30%.

4 It is possible to produce 4400 units of Wye in normal working conditions. Direct labour is paid a premium of 25% for any overtime working.

Option B

1 Boost sales of Zed by 20% on current levels by improving its quality.

2 The selling price per unit of Zed will increase by 5%.

3 Direct material cost per unit of Zed will increase to $33 per unit.

4 Direct labour rate per unit of Zed will increase by 10%.

5 The current advertising campaign for Zed, which costs $1300 per month, will be stopped.

6 A sales commission will be paid of $3 per unit for every sale up to the current level of 1200 units per month of Zed, and $5 per unit for every unit over and above 1200 units per month.

7 There is sufficient factory capacity to cover the increased production of Zed.

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(d) Calculate the **total monthly** profit to be made if Option A is chosen.

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(e) Prepare a marginal costing statement to show the **total monthly** profit to be made if Option B is chosen.

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

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