Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

0725515081

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **May/June 2024**

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 **16** pages.

DC (PQ) 325885/4

1 Zahid owns a small retail business. He has **not** maintained a full set of accounting records.

Zahid supplied the following information for the year ended 31 December 2023.

1 All sales were made on a cash basis. Cash sales totalled $195 000.

2 All goods were sold with a mark-up of 50%.

(a) Calculate the gross profit of the business for the year ended 31 December 2023.

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Additional information

The following information is also available.

1 Inventory and trade payables

	At 1 January 2023 $	At 31 December 2023 $
Inventory	16 400	22 460
Trade payables	13 500	15 600

2 All purchases were made on credit. Trade suppliers were paid $134 240 after deducting cash discounts totalling $560.

3 Zahid took goods for his own use during the year. However, no record was made of the value of these goods.

(b) Calculate for the year ended 31 December 2023:

(i) purchases

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(ii) the value of goods taken for own use by Zahid.

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Additional information

The following information is available for Zahid's business.

1 Non-current assets

Non-current assets had the following values.

	$
1 January 2023	194 000
31 December 2023	188 000

During the year ended 31 December 2023, a non-current asset was sold for $5600, resulting in a profit on disposal of $2400. Additional non-current assets were purchased for $9200.

2 Income from rent receivable

At 1 January 2023	Bank receipts during the year	At 31 December 2023
owing to Zahid's business $280	$5360	received in advance $600

3 Expenses

	At 1 January 2023	Bank payments during the year	At 31 December 2023
Advertising	prepaid $490	$5 960	accrued $610
General expenses	accrued $570	$8 480	–
Insurance	prepaid $330	$4 510	prepaid $390
Wages	–	$12 400	accrued $470

(c) Prepare an extract from the statement of profit or loss for the year ended 31 December 2023, starting with the gross profit calculated in **(a)**.

Workings:

Zahid
Statement of profit or loss for the year ended 31 December 2023 (extract)

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Gross profit	....
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(d) Explain, with reference to an accounting concept, why Zahid made adjustments to his income and expenses when preparing the statement of profit or loss.

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Additional information

Zahid plans to expand his business. This would mean he would no longer operate as a sole trader. He is considering the following options.

Option A: form a partnership with Talha who currently owns a similar business.

Option B: form a limited liability company with himself and Talha as shareholders and directors.

(e) Advise Zahid which option he should choose. Justify your answer by considering **both** the advantages and the disadvantages of **each** option.

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[Total: 30]

2 J Limited's financial year ended on 31 December 2023. At this date the following balances remained in the books of account from which the statement of financial position is to be prepared.

	$
8% Debentures (2024)	90 000
Cash and cash equivalents (debit balance)	28 900
Furniture and equipment at carrying value	180 000
Inventory	84 000
Issued share capital: shares of $0.50 each	750 000
Property at valuation	1 060 000
Retained earnings	242 400
Revaluation reserve	70 000
Share premium	220 000
Trade and other payables	19 700
Trade and other receivables	39 200

The following errors have been discovered in the information shown.

1 Inventory at 31 December 2023 had been undervalued by $3600.

2 Furniture and equipment had been depreciated by 25% instead of 20%, using the reducing balance method of depreciation.

3 Sales returns of $1100 had been recorded in the books of prime entry as purchases returns. The error affected the general ledger and the personal accounts of credit customers and credit suppliers.

(a) Calculate the corrected balance of retained earnings at 31 December 2023.

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(b) Prepare the statement of financial position at 31 December 2023.

J Limited
Statement of financial position at 31 December 2023

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[Total: 15]

3 Suki uses ratios to assess her business's efficiency.

The following information is available.

1 For the year ended 31 December 2023:

	$
Purchases	323 000
Revenue	482 500

2 At 31 December 2023:

	$
Trade payables	33 600
Trade receivables	34 100

All goods are purchased on credit.

80% of sales are on credit.

(a) Calculate the following ratios, stating the formula used.

(i) Trade payables turnover (days)

Formula	Calculation

[2]

(ii) Trade receivables turnover (days)

Formula	Calculation

[2]

Additional information

At 31 December 2022 the following ratios were calculated.

Trade payables turnover (days)	32 days
Trade receivables turnover (days)	36 days

(b) Discuss the performance of Suki's business, comparing the results for 2023 with those for 2022.

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Additional information

Inventories were valued as follows:

	$
1 January 2023	36 700
31 December 2023	42 100

(c) Calculate, to **two** decimal places, the rate of inventory turnover, stating the formula used.

Formula	Calculation

[3]

(d) Explain the importance of the rate of inventory turnover to a business.

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[Total: 15]

4 D Limited is a manufacturing company.

(a) Explain **two** uses of absorption costing.

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Additional information

D Limited uses marginal costing. At one of its factories a single type of product is made. The following budgeted information is available.

Per unit	$
Selling price	92
Direct materials	33
Direct labour	39
Fixed costs	8

The factory has a budgeted capacity of 15 000 units per month.

(b) Calculate the monthly break-even point in units.

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Additional information

It was forecast that only 4920 units would be sold in January 2024.

(c) Calculate the forecast profit or loss for January 2024.

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Additional information

The directors have set a target profit of $150 000 per month.

(d) Calculate the number of units to be sold in order to achieve the target profit.

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Additional information

At **another** factory of D Limited a single different type of product is made. The following budgeted details are available for one month's production:

Per unit	$
Direct materials	16
Direct labour	17
Other variable costs	3
Contribution	24

Normal capacity at this factory is 18 000 units per month. Recently, the factory has been operating at 80% capacity and this has resulted in a monthly profit of $150 600.

The directors have been informed that a major competitor manufacturing the same product plans to stop production. The directors plan to take advantage of the situation and are considering two options.

Option A

1 Increase monthly production by 6000 units on current output levels.

2 Sell all production at a price per unit 2% above the current price.

3 Any production above normal factory capacity will require direct labour to be paid an overtime premium of 50%.

Option B

1 Increase factory capacity to 22 000 units per month.

2 Sell all production at a price per unit 3% above the current price.

3 Suppliers of direct materials will be expected to offer a trade discount of 25% instead of the current trade discount of 20%.

4 The direct labour rate per unit will be increased to $18.50.

5 Some additional machinery will be purchased at a cost of $120 000. Machinery is depreciated by 20% per annum, using the straight-line method.

6 An additional $20 000 per month will be spent on advertising.

(e) Calculate the **monthly** profit to be made from Option A.

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(f) Prepare a **monthly** marginal costing statement for Option B.

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(g) Advise the directors whether or not they should go ahead with either of these options. Justify your choice by discussing **both** financial and non-financial factors.

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[Total: 30]