

# Cambridge International AS & A Level

CANDIDATE NAME					
CENTRE NUMBER			CANDIDATE NUMBER		

ACCOUNTING 9706/22

Paper 2 Structured Questions

February/March 2020

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. Blank pages are indicated.

1 The following information is available for S Limited for the year ended 31 December 2019.

Balances at 1 January 2019

Inventory \$
122 000
Administrative expenses accrued \$3875

Amounts paid during the year ended 31 December 2019

Distribution costs 84 475
Administrative expenses 298 875
Purchases 435 000

Amounts received during the year ended 31 December 2019

Revenue 998400

Balances at 31 December 2019

Inventory 134 200 Administrative expenses prepaid 7 500 6% debenture (2024) 100 000

The following information is also available.

1 Inventory at 31 December 2019 included some damaged goods which had cost \$5000. These goods can only be sold for \$3000 after repairs costing \$700 have been carried out.

2 The 6% debenture (2024) was issued on 1 September 2019.

**REQUIRED** (a) Prepare the income statement for the year ended 31 December 2019. S Limited Income statement for the year ended 31 December 2019 Workings:

The following additional balances were also available at 1 January 2019.

\$
Ordinary shares of \$1 each 100 000
Share premium 20 000
Retained earnings 126 230

- 1 An interim dividend of \$0.08 per share was paid on 30 June 2019.
- A bonus issue of one ordinary share for every four shares held was made on 31 October 2019. Reserves were maintained in their most flexible form.
- 3 A final dividend of \$0.09 per ordinary share was proposed on 31 December 2019.

### **REQUIRED**

(b)	Explain what is meant by 'Reserves were maintained in their most flexible form'.	
		L — J

(c) Prepare the ordinary share capital account for the year ended 31 December 2019.

### Ordinary share capital account

\$	\$

(d) Prepare the statement of changes in equity for the year ended 31 December 2019.

S Limited
Statement of changes in equity for the year ended 31 December 2019

Share capital	Share premium \$	Retained earnings \$	Total \$

[5]

The directors are planning to acquire more machinery in the following year and require a further investment of \$50000. They are considering two options:

option 1: issue an additional 6% debenture for \$50000

option 2: make a rights issue of one ordinary share for every five shares held at a premium of \$1 per share.

### **REQUIRED**

(e)	Advise the directors on which option they should choose. Justify your answer.
	[9]

[Total: 30]

2

Del	preci	ation is provided for by a business when accounting for non-current assets.	
(a)	(i)	State three possible causes of depreciation.	
		1	
		2	
		3	
			[3]
	(ii)	Explain <b>two</b> accounting concepts which are applied when providing for depreciation.	
		1 Concept	
		Explanation	
		2 Concept	
		Explanation	
			 [4]
			F . 1

The directors of K Limited prepare financial statements to 31 December. They have provided the following information.

Balances at 1 January 2019

\$
Motor vehicles cost 180 000
Motor vehicles provision for depreciation 105 000

During the year ended 31 December 2019

- 1 A new motor vehicle was acquired for \$50000.
- A motor vehicle which had cost \$40000 and been depreciated by \$17500 was sold for \$16500.

The company policy is to depreciate motor vehicles at 25% per annum using the reducing balance method.

A full year's depreciation is charged in the year of acquisition and none in the year of disposal.

### **REQUIRED**

- **(b)** Prepare for the year ended 31 December 2019:
  - (i) motor vehicles provision for depreciation account

Motor vehicles provision for depreciation account

	\$	\$

[6]

# (ii) disposal account

# Disposal account

	\$	\$

[2]

[Total: 15]

**3** Eden runs a small business and has provided the following information for the year ended 31 December 2019.

	\$
Trade receivables at 1 January 2019	45000
Contra sales ledger to purchases ledger	780
Discounts allowed	1025
Discounts received	695
Interest charged on a customer's overdue account	65
Irrecoverable debt	945
Receipts from trade receivables	128600
Returns inwards	2500
Returns outwards	1800
Total sales	190 000

20% of total sales are cash sales; the remainder are credit sales.

### **REQUIRED**

(a)

Explain <b>three</b> advantages to a business of preparing control accounts.
1
2
3
[6]

**(b)** Prepare the sales ledger control account for the year ended 31 December 2019.

# Sales ledger control account

\$	\$

[9]

[Total: 15]

**4** Cuthbert runs a manufacturing business which has two production departments and one service department. The business allocates and apportions overhead expenditure between production and service departments.

#### **REQUIRED**

(a)	Exp	lain <b>one</b> difference between overhead allocation and overhead apportionment.	
			 [2]
(h)	Stat	te what is meant by:	,
(D)			
	(i)	a production department	
			 [1]
	(ii)	a service department	
			 [1]

The following budgeted information has been provided.

	\$
Rent	18000
Heating and lighting	12500
Depreciation	11 200
Employee overheads	8300
	50000

	Production department 1	Production department 2	Service department
Area (Square metres)	4500	3000	1500
Electricity used (Kilowatt hours)	60 000	30 000	10 000
Non-current assets at net book value (\$)	75 000	45 000	
Number of employees	45	25	13
Direct labour hours	4000	1200	
Machine hours	1500	2000	

Service department costs are re-apportioned on the basis of electricity used.

### **REQUIRED**

**(c)** Complete the table to apportion the budgeted overheads to each department. Re-apportion the service department costs to the two production departments.

Overhead	Production department 1 \$	Production department 2 \$	Service department \$	Total \$
Rent				
Heating and lighting				
Depreciation				
Employee overheads				
Service department re-apportionment				

(d)	Calculate the overhead absorption rate for both production departments using an appropriate basis. Give your answers to <b>two</b> decimal places.		
	Production department 1		
	Production department 2		
	[4]		
(e)	Explain the reason for the re-apportionment of the service department costs.		
	[2]		
(f)	State <b>three</b> limitations of using absorption costing.		
	1		
	2		
	3		
	[3]		

A customer made a request for a special order.

The manufacture of this order would require direct materials of \$2800 and direct labour of \$3200.

	Production department 1	Production department 2
Direct labour hours	80	20
Machine hours	30	100

Cuthbert wishes to achieve a profit margin of 35% on this order.

### **REQUIRED**

g)	Calculate the price to quote for this special order.	
		Γ4

The customer offered \$9000 for this order.

#### **REQUIRED**

(h)	Advise Cuthbert whether or not he should accept the order. Justify your answer.	
	[1]	

[Total: 30]

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