



**Cambridge Assessment International Education**  
Cambridge International Advanced Subsidiary and Advanced Level

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**ACCOUNTING**

**9706/22**

Paper 2 Structured Questions

**February/March 2019**

**1 hour 30 minutes**

Candidates answer on the Question Paper.

No Additional Materials are required.

**READ THESE INSTRUCTIONS FIRST**

Write your centre number, candidate number and name on all the work you hand in.

Write in dark blue or black pen.

You may use an HB pencil for rough working.

Do not use staples, paper clips, glue or correction fluid.

DO **NOT** WRITE IN ANY BARCODES.

Answer **all** questions.

All accounting statements are to be presented in good style.

International accounting terms and formats should be used as appropriate.

Workings must be shown.

You may use a calculator.

At the end of the examination, fasten all your work securely together.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **20** printed pages.

- 1 The following balances were extracted from the books of K Limited at 30 September 2018.

	Debit \$000	Credit \$000
8% Debentures (2022-2024)		75
Administrative expenses	42	
Cash and cash equivalents		11
Cost of sales	587	
Debenture interest	3	
Distribution costs	46	
Dividends paid	60	
Equipment		
cost	90	
provision for depreciation at 1 October 2017		30
Land and buildings		
cost	980	
provision for depreciation at 1 October 2017		135
Inventory at 30 September 2018	19	
Issued share capital: ordinary shares of \$0.50 each		450
Retained earnings at 1 October 2017		106
Revenue		936
Share premium		90
Trade payables		35
Trade receivables	41	

The following information is also available.

- 1 Administrative expenses includes a payment, \$9000, for insurance for the three months ended 30 November 2018.
- 2 Carriage inwards of \$3000 had been included in distribution costs.
- 3 Land and buildings includes land at a cost of \$260 000.
- 4 The company's depreciation policy is as follows:

Equipment	20% per annum using the reducing balance method	Charged to distribution costs
Buildings	2½% per annum using the straight-line method	Charged to administrative expenses
Land	No depreciation	

**REQUIRED**

(a) Prepare the income statement for the year ended 30 September 2018.

K Limited  
Income statement for the year ended 30 September 2018

	\$000

Workings:

[10]

### Additional information

During the year ended 30 September 2018 the directors had made a rights issue of 1 ordinary share for every 2 shares held at a price of \$0.70 per share. The issue was fully subscribed and had been recorded in the books of account.

### REQUIRED

(b) Prepare the statement of changes in equity for the year ended 30 September 2018.

	Share capital \$000	Share premium \$000	Retained earnings \$000	Total \$000

Workings:

[6]



**Additional information**

The directors have provided the following information:

	Year ended 30 September 2018	Year ended 30 September 2017	Industry average for both years
Trade payables turnover	29 days	35 days	34 days
Trade receivables turnover	39 days	31 days	32 days

**REQUIRED**

(d) Analyse the effect that the changes in **each** of these ratios had on the company's liquidity using all the available information.

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..... [3]

(e) State **three** ways in which a business could reduce trade receivables turnover.

1 .....  
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2 .....  
.....  
3 .....  
..... [3]

(f) State **three** drawbacks of increasing trade payables turnover.

1 .....  
.....  
2 .....  
.....  
3 .....  
..... [3]

[Total: 30]

**Question 2 is on the next page.**



2 Mira, Sasha and Peta have been trading as a partnership.

They share profits and losses in the ratio of 2:2:1 respectively. The partnership ceased trading on 31 January 2019.

**REQUIRED**

(a) State **four** reasons why a partnership may be dissolved.

1 .....

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2 .....

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3 .....

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4 .....

..... [4]

### Additional information

The following information is available on dissolution of partnership.

1  
Mira, Sasha and Peta  
Statement of financial position at 31 January 2019

	\$
<b>Assets</b>	
<b>Non-current assets</b>	
Fixtures and fittings	45 200
Motor vehicles	22 000
	67 200
<b>Current assets</b>	
Inventory	20 600
Trade receivables	42 800
	63 400
<b>Total assets</b>	130 600
<b>Capital and liabilities</b>	
<b>Capital accounts</b>	
Mira	45 500
Sasha	42 800
Peta	14 000
	102 300
<b>Current liabilities</b>	
Trade payables	26 400
Bank overdraft	1 900
	28 300
<b>Total capital and liabilities</b>	130 600

- 2 Sasha took a motor vehicle at an agreed valuation of \$4500. The remaining non-current assets were sold for \$64 300.
- 3 Inventory was sold for \$19 800.
- 4 Received \$40 500 from trade receivables.
- 5 Trade payables were paid \$26 000.
- 6 The costs of dissolution were \$3700.



Mira, Sasha and Peta

Capital accounts

Details	Mira \$	Sasha \$	Peta \$	Details	Mira \$	Sasha \$	Peta \$

(d) Prepare the final bank account to show the closure of the partnership.

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..... [2]

(e) Suggest **two** reasons why the trade receivables did **not** pay the full amount they owed.

1 .....

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2 .....

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..... [2]

[Total: 15]

- 3 Noor, a sole trader, was preparing her business's financial statements for the year ended 31 December 2018.

The following information is available.

At 1 January 2018

	\$
General expenses prepaid	480

During the year ended 31 December 2018

	\$
General expenses paid	12 400
Insurance premiums paid	6 480
Rent received	5 460

At 31 December 2018

- 1 General expenses, \$1210, were due but unpaid.
- 2 Insurance premiums paid included \$630 covering the six months ended 31 January 2019.
- 3 Rent receivable of \$1200 for the three months ended 28 February 2019 had not yet been received.
- 4 Inventory had been valued at a cost of \$11 400. However, it included several damaged items which had a selling price of \$840. All goods are sold with a mark-up of 50%. The damaged items could be sold but would require repairs costing \$360.

**REQUIRED**

- (a) Calculate the amount to be recorded in the income statement for the year ended 31 December 2018 for each of the following items.

(i) General expenses

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..... [3]

(ii) Insurance

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..... [1]

(iii) Rent receivable

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..... [1]

(iv) Closing inventory

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..... [3]

**Additional information**

Noor’s policy is to maintain a provision for doubtful debts at 5% of trade receivables at the end of the financial year.

**REQUIRED**

(b) State **two** accounting concepts which are applied when recording a provision for doubtful debts.

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

**Additional information**

At 31 December 2017 Noor’s trade receivables were \$34 200 after deducting the provision for doubtful debts.

At 31 December 2018 total trade receivables were \$37 200. This total included the accounts of the following two credit customers.

	\$
MN Limited	680
S Wells	360

Noor decided to write off these two accounts. She will maintain her provision for doubtful debts at 5% of trade receivables.

**REQUIRED**

(c) Calculate the increase or decrease in the provision for doubtful debts at 31 December 2018.

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[5]

[Total: 15]





### Additional information

Included in the allocated fixed overheads is rental of machinery at a cost of \$100 000 a year. This cost is allocated 75% to Product A and 25% to Product B.

The directors are now considering two options.

Option 1: Continue with the existing machinery rental on the same terms.

Option 2: Taking out a new rental agreement for new machinery. The new rental agreement would consist of a fixed fee of \$28 000 a year plus \$4 for each unit produced. The fixed fee would be split across the products in the same proportions as under the current agreement.

### REQUIRED

(b) Complete the following table to show the effect of Option 2.

	Product A	Product B	Total
Revised unit contribution			
Revised allocated total fixed overheads, total for the year			
Revised budgeted profit for the year			
Workings:			

[9]



(e) State **two** other uses of marginal costing to a business.

1 .....

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2 .....

..... [2]

[Total: 30]

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