Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

4603432733

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 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.

DC (CJ) 303853/3

1 Khin is a retailer.

The following balances have been extracted from his books of account at 31 January 2022.

	$
Advertising	4 900
Carriage inwards	2 140
Carriage outwards	1 730
Furniture and equipment at cost	18 900
Furniture and equipment provision for depreciation at 1 February 2021	7 300
General expenses	13 450
Inventory at 1 February 2021	12 310
Irrecoverable debts	670
Loss on disposal of delivery vehicle	1 350
Premises at cost	360 000
Premises provision for depreciation at 1 February 2021	21 600
Provision for doubtful debts at 1 February 2021	840
Purchases	118 220
Rent receivable	7 000
Revenue	197 300
Trade receivables	15 580
Wages and salaries	34 640

The following information is also available at 31 January 2022.

1 Closing inventory was valued at $13 480.

2 No record had been made of goods taken for own use by Khin, $910.

3 An irrecoverable debt of $380 is to be written off.

4 The provision for doubtful debts is to be maintained at 5% of trade receivables.

5 Advertising includes a payment of $3250 for a campaign which will last from 1 December 2021 to 30 April 2022.

6 Rent receivable is $500 per month.

7 Wages, $1440, are outstanding.

8 Khin sold his business's only delivery vehicle in January 2022 resulting in the loss of $1350 shown in the balances at 31 January 2022.

9 The business's depreciation policy is as follows:

i Premises to be depreciated by 2% per annum using the straight-line method.
ii Furniture and equipment to be depreciated by 15% using the reducing balance method.

REQUIRED

(a) Prepare the income statement for the year ended 31 January 2022. Use the space provided on **page 4** for your workings.

Khin
Income statement for the year ended 31 January 2022

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Workings:

[15]

Additional information

There was no opening balance on the rent receivable account at 1 February 2021.

REQUIRED

(b) Prepare the rent receivable account for the year ended 31 January 2022.

Rent receivable account

	$		$

[2]

(c) Prepare a journal entry to record the adjustment to the provision for doubtful debts account at 31 January 2022. A narrative is **not** required.

Journal

	Dr $	Cr $

[2]

Additional information

Khin intends to purchase a new delivery vehicle. He is not sure whether the delivery vehicle should be depreciated using the straight-line method or reducing balance method of depreciation.

REQUIRED

(d) Explain the reason for recording depreciation in a business's income statement.

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(e) State **one** benefit of using each of the following methods of depreciation.

(i) Straight-line

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(ii) Reducing balance

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.... [1]

Additional information

Khin is concerned about a decline in the business's profitability. He is considering two options.

Option 1: decrease the amount spent on advertising whilst also reducing the selling price by a small amount.

Option 2: purchase goods from cheaper suppliers.

REQUIRED

(f) Advise Khin which option he should choose. Justify your advice by discussing **both** options.

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[Total: 30]

2 Yasmin is a sole trader. She has prepared a trial balance. Some errors are not revealed by a trial balance.

REQUIRED

(a) Describe **each** of the following errors. Examples are **not** required.

(i) Error of commission

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(ii) Error of original entry

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(iii) Error of principle

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Additional information

When Yasmin prepared a trial balance for her business at the year-end, 31 December 2021, the totals did not agree. The difference was entered in a suspense account.

The following errors were discovered which accounted for the difference.

1 Goods for own use, $430, had been debited to the drawings account but no other entry had been made.

2 Returns inwards of $740 had been credited to the returns outwards account.

3 An irrecoverable debt of $260 had been correctly recorded in the journal and in the account of the customer, but had been posted to the wrong side of the irrecoverable debts account.

REQUIRED

(b) Prepare the suspense account clearly identifying the original difference in the trial balance totals.

Suspense account

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[5]

Additional information

The business's draft profit before correcting the errors was $28 750 for the year ended 31 December 2021.

REQUIRED

(c) Complete the following table to calculate the corrected profit for the year ended 31 December 2021.

	$
Draft profit	28 750
Error 1	
Error 2	
Error 3	
Corrected profit	

[4]

[Total: 15]

PLEASE TURN OVER

3 Maria and Rio have been in partnership for a number of years. They are considering admitting a new partner.

REQUIRED

(a) State **three** disadvantages to the existing partners when a new partner is admitted.

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[3]

Additional information

The partnership year end is 31 December. For the period 1 January to 30 September 2021, Maria and Rio did not have a partnership agreement.

The following information is available for the year ended 31 December 2021.

The balances on the partners' accounts on 1 January 2021 were:

	$
Capital accounts	
Maria	52 000
Rio	38 000
Loan account: Rio	6 000

On 1 October 2021 they admitted Sarah as a partner. Sarah introduced capital of $45 000 from her personal savings. The partners agreed to make no adjustments for goodwill or the revaluation of the partnership assets.

From 1 October 2021 a formal partnership agreement was prepared as follows:

1 Rio to be given interest on his loan at 8% per annum.

2 Interest to be given at 6% per annum on fixed capitals.

3 Rio to be given a partnership salary of $15 000 per annum.

4 Profits to be shared in the ratio Maria : Rio : Sarah, 2 : 1 : 2 respectively.

During the year ended 31 December 2021, the partnership made a profit of $82 500 before taking into account interest on Rio's loan. It was assumed that the profit before interest on Rio's loan had accrued evenly throughout the year.

REQUIRED

(b) Prepare the appropriation account for the year ended 31 December 2021.

Maria, Rio and Sarah
Appropriation account for the year ended 31 December 2021

	Maria and Rio 1 Jan–30 Sept $	Maria, Rio and Sarah 1 Oct–31 Dec $
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Additional information

Before Sarah had been admitted as a partner, she had been earning a salary of $18000 per annum. She had also received interest of 8% per annum on her personal savings.

REQUIRED

(c) Compare Sarah's income as a partner with the total income she would have otherwise received in the three months ended 31 December 2021. Support your answer with calculations.

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[Total: 15]

PLEASE TURN OVER

4 N Limited manufactures a single product at one of its factories. The company uses marginal costing.

REQUIRED

(a) State **two** benefits of using break-even analysis.

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2 ....

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[2]

(b) Define the term 'fixed costs'.

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Additional information

The following details are available for one month's production:

Fixed costs	$70 000
Break-even point	8 000 units
Selling price per unit	$20
Margin of safety	$80 000

REQUIRED

(c) Calculate the variable cost per unit.

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Additional information

The directors have decided to increase output by 20%. All the output can be sold.

New machinery will be purchased at a cost of $72 000. The new machinery will have a useful life of 5 years. The directors also plan the following:

1 Variable costs will remain unchanged.

2 Selling prices will be reduced by 5% to ensure that all production can be sold.

3 The cost of the new machinery will be financed by the issue of 10% debentures.

REQUIRED

(d) **(i)** Calculate the monthly revenue based on this plan.

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(ii) Prepare a budgeted marginal costing statement for one month based on this plan for total production.

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Additional information

At another factory the company manufactures two products: X and Y. Both products use the same material.

The following information is available for one month's output.

	X	Y
	$	$
Selling price per unit	32	44
Direct material per unit	10	14
Direct labour per unit	12	19
Output	5000 units	4000 units

This factory's fixed costs are $58 000 per month.

In April 2022 the supplier of direct materials informed the company that it would only be able to supply 75% of the normal monthly requirement in June 2022.

REQUIRED

(e) Prepare a budgeted production plan for June 2022 to show the maximum profit available.

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Additional information

A director has suggested an alternative plan that the factory should produce extra units in May 2022 to make up for the shortfall of either Product X or Product Y in June 2022. Any additional production will require overtime to be worked.

The following information is available:

1 All material requirements can be met in May 2022 but the material has to be converted into finished product immediately as purchased.

2 Overtime is paid at 1.5 times the normal rate.

3 The extra units will be stored at a cost of $4000.

REQUIRED

(f) Calculate the profit or loss to be made on the extra units if this plan is implemented in May 2022.

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(g) Advise the directors whether they should use the original budgeted production plan in **(e)** or whether they should increase production in May 2022 as suggested by the director in his alternative plan. Justify your advice.

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[Total: 30]

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