Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME						
CENTRE NUMBER						
CANDIDATE NUMBER						

0435939195

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 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.

1 Reece, a sole trader, does not maintain a full set of accounting records. He has provided the following information for the year ended 30 June 2022.

	30 June 2022	1 July 2021
	$	$
Cash	110	240
Electricity accrued	380	420
Inventory	21 400	23 600
Machinery		
Cost	?	18 480
Accumulated depreciation	?	9 685
Rent paid in advance	1 100	950
Trade payables	8 520	6 285
Trade receivables	20 620	23 580

Bank account summary

Receipts	$	Payments	$
Balance b/d	1 860	Credit suppliers	80 140
Credit customers	149 810	Rent	12 250
Cash sales banked	7 170	Wages	36 240
Sale of machinery	4 000	Electricity	3 680
		General expenses	18 590
		New machinery	9 200
		Balance c/d	2 740
	162 840		162 840

The following information is also available.

1 Total cash sales for the year were $15 280.

2 Reece had also paid cash for wages during the year but had not recorded this.

3 Reece took $450 per month drawings before the cash sales were banked. He had also taken goods for his own use with a selling price of $350 after a mark-up of 25%.

4 During the year, machinery that had cost $6000 on 1 July 2019 was sold.

5 Machinery is to be depreciated at 15% per annum using the reducing balance method. A full year's depreciation is charged in the year of purchase, but none in the year of disposal.

REQUIRED

(a) Calculate the total credit sales for the year ended 30 June 2022.

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.... [2]

(b) Calculate the total credit purchases for the year ended 30 June 2022.

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.... [1]

(c) Calculate the total **cash** paid for wages during the year ended 30 June 2022.

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.... [3]

(d) Calculate the depreciation charge for the year ended 30 June 2022.

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Additional information

Inventory at 30 June 2022 included damaged goods which had cost $1800, but needed repairs costing $350. The goods could then be sold for 30% less than the normal selling price of $2250.

REQUIRED

(e) Prepare the income statement for the year ended 30 June 2022.

Reece

Income statement for the year ended 30 June 2022

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Workings:

[10]

(f) State **two** causes of depreciation of non-current assets.

1 ....

2 ....
[2]

(g) Explain, with reference to an accounting concept in each case, why:

(i) a business should make a provision for depreciation of non-current assets

Accounting concept

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Explanation

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.... [2]

(ii) a business should make an adjustment for damaged inventory.

Accounting concept

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Explanation

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.... [2]

Additional information

Reece has been thinking of maintaining a full set of accounting records.

REQUIRED

(h) Advise Reece whether or not he should maintain a full set of accounting records. Justify your answer.

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.... [5]

[Total: 30]

PLEASE TURN OVER

2 Darius and Ewan are in partnership sharing profits and losses in the ratio 5 : 3.

The following balances were extracted from the partnership books of account at 31 July 2022.

	$
Bank overdraft	12 700
Capital accounts	
Darius	94 300
Ewan	68 300
Fixtures and fittings	44 000
Inventory	36 200
Property at valuation	127 000
Bank loan (2025)	24 000
Trade payables	14 200
Trade receivables	6 300

On 1 August 2022, the partners agreed to admit Karim into the partnership on the following terms.

1 Karim was to introduce total capital of $48 000. This consisted of fixtures and fittings valued at $9500 with the balance to be introduced into the partnership bank account.

2 Future profits and losses were to be shared between Darius, Ewan and Karim in the ratio 5 : 3 : 2.

3 Goodwill was to be valued at $36 800. Goodwill was not to be retained in the books of account.

4 Property was to be revalued to $135 000.

5 Obsolete inventory of $2000 was to be written off.

REQUIRED

(a) Prepare, on **page 9**, the partners' capital accounts on 1 August 2022 following the admission of Karim.

Capital accounts

	Darius	Ewan	Karim		Darius	Ewan	Karim
	$	$	$		$	$	$

Workings:

[5]

(b) Prepare the partnership statement of financial position at 1 August 2022 following the admission of Karim. Use the space provided on **page 11** for your workings.

Darius, Ewan and Karim

Statement of financial position at 1 August 2022

Workings:

[6]

Additional information

Partners may allow interest on capital and charge interest on drawings.

REQUIRED

(c) State **one** advantage of allowing interest on capital to a:

partner ....

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partnership ....

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[2]

(d) Explain **one** reason why a partnership may charge interest on drawings.

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.... [2]

[Total: 15]

3 R Limited is a retail company.

REQUIRED

(a) Explain the meaning of 8% debentures (2025–2026).

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.... [3]

Additional information

The directors of R Limited provided the following information at 1 October 2021.

	$000
Building at valuation	120
Retained earnings	315
Revaluation reserve	40
Share capital (ordinary shares of $0.50 each)	1200
Share premium	145

The following transactions took place during the year ended 30 September 2022.

31 December 2021	Paid a final dividend of $0.06 per share.
31 March 2022	Made a rights issue of one ordinary share for every four shares held at a price of $0.65. The issue was fully subscribed.
31 July 2022	Made a bonus issue of one ordinary share for every six shares held. The directors decided to leave the reserves in the most flexible form.
31 August 2022	Paid an interim dividend of $0.04 per share.
30 September 2022	The building, which had originally cost $80000, was revalued to $115000.

The profit for the year ended 30 September 2022 was $87000.

REQUIRED

(b) Prepare the statement of changes in equity for the year ended 30 September 2022.

R Limited
Statement of changes in equity for the year ended 30 September 2022

	Share capital $000	Share premium $000	Revaluation reserve $000	Retained earnings $000	Total $000
At 1 October 2021	1200	145	40	315	1700
At 30 September 2022					

Workings:

[10]

(c) Explain why dividends proposed at the end of a financial year are **not** shown in a company's statement of financial position.

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.... [2]

[Total: 15]

4 X Limited is a manufacturing business operating two production departments, Machining and Finishing and two service departments, Stores and Maintenance.

All overhead costs have already been allocated to the departments. The service department costs are to be apportioned to production departments as follows:

Stores department: in proportion to the number of parts orders

Maintenance department: in proportion to the number of maintenance call-outs.

The following budgeted information was available for the year ended 30 September 2022.

	Machining department	Finishing department	Maintenance department
Direct labour hours	11 500	54 600	–
Machine hours	48 000	12 000	–
Number of parts orders	6 400	1 800	300
Number of maintenance call-outs	120	30	–

REQUIRED

(a) Complete the table to apportion the service department costs to production departments.

		Production departments		Service departments	
	Total $	Machining $	Finishing $	Stores $	Maintenance $
Allocated overheads	803 900	288 500	515 400	–	–
Indirect labour	459 000	106 000	52 000	70 000	231 000
Other indirect costs	360 000	114 000	56 000	78 000	112 000
Total overheads	1 622 900	508 500	623 400	148 000	343 000

[4]

(b) Calculate, to **two** decimal places, a suitable overhead absorption rate for **each** production department.

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.... [4]

Additional information

The actual results for the year ended 30 September 2022 were as follows:

	Machining	Finishing
Total overheads	$910 000	$705 000
Direct labour hours	12 100	51 800
Machine hours	49 200	10 900

REQUIRED

(c) Calculate the over-absorption or under-absorption of overheads for **each** production department.

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.... [4]

(d) State **two** possible reasons why a business may **under** absorb overheads.

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[2]

Additional information

The total budgeted direct labour cost for the production departments for the year ended 30 September 2022 was $594 900.

REQUIRED

(e) Calculate the budgeted hourly direct labour rate for the production departments.

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Additional information

X Limited have been asked to supply a quotation for a customer who requires 50 units of a product. Each unit would require the following:

Direct material	4 kilos at $2.45 per kilo
Direct labour	Machining department – 3 hours
	Finishing department – 4.5 hours
Overheads	Machining department
	2 direct labour hours
	1.25 machine hours
	Finishing department
	2.5 direct labour hours
	1.75 machine hours

The machining department is working at full capacity, so an overtime premium of 25% would be required to complete this work.

X Limited would require a profit margin of 25% on this work.

REQUIRED

(f) Prepare a statement to show the **total** selling price that X Limited will quote to the customer.

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(g) Explain why a business apportions service department costs to production departments.

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Additional information

The directors of X Limited have been advised that they should change from a departmental overhead absorption rate to one factory-wide rate. They are concerned that this may affect the profits of the business.

REQUIRED

(h) Advise the directors whether or not they should make this change. Justify your answer.

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[Total: 30]

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