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Cambridge Assessment International Education

# Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

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**ACCOUNTING** **9706/22**

Paper 2 Fundamentals of Accounting **May/June 2025**

**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 **20** pages. Any blank pages are indicated.

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1 H Limited's financial year ended on 31 December 2024. On that date, the following information was available.

Non-current assets included the following:

| | Cost at 1 January 2024 | Provision for depreciation at 1 January 2024 | Depreciation policy | Allocation |
|---|---|---|---|---|
| Motor vehicles | $80 000 | $28 400 | 20% per annum using the reducing balance method | 75% Distribution costs<br>25% Administrative expenses |
| Furniture and equipment | $45 000 | $16 200 | 15% per annum using the straight-line method | 100% Administrative expenses |

On 1 July 2024, equipment, which cost $8000 when purchased on 1 January 2022, was sold for $3900. Depreciation is provided on furniture and equipment on a month-by-month basis in the year of disposal.

**(a)** Calculate the depreciation charge for 2024 on the following non-current assets.

**(i)** Motor vehicles

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**(ii)** Furniture and equipment

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**(b)** Calculate the profit or loss on the disposal of equipment.

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**Additional information**

The books of account also included the following balances on 31 December 2024.

| | $ |
|---|---|
| 10% Debenture (2026) | 80 000 |
| Administrative expenses | 11 560 |
| Carriage outwards | 2 700 |
| Cost of sales | 288 400 |
| Debenture interest | 4 000 |
| Directors' remuneration | 56 000 |
| Distribution costs | 9 800 |
| Dividends paid | 22 500 |
| Office wages | 37 150 |
| Marketing expenses | 24 240 |
| Property at valuation at 1 January 2024 | 970 000 |
| Rental income | 7 200 |
| Revenue | 570 000 |
| Sales staff wages and salaries | 62 300 |

Additional information at 31 December 2024

1 Part of the premises has been rented out since 1 May 2024. The rental income is $2400 for every three months payable in advance.

2 Directors' remuneration is an administrative expense.

3 Marketing expenses include the cost of an advertising campaign, $8800, which runs from 1 September 2024 to 30 April **2026**.

4 Office wages owing were $1250.

5 Sales staff are yet to be paid an annual bonus of 2% of all sales above $450 000.

6 The debenture was issued on 1 April 2024.

7 Taxation for the year is estimated to be $4200.

**(c)** Prepare the statement of profit or loss for the year ended 31 December 2024.

H Limited
Statement of profit or loss for the year ended 31 December 2024.

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Workings:

| |
|---|
| Distribution costs |
| Administrative expenses |
| Rental income |

[12]

**Additional information**

1 During the year ended 31 December 2024, an issue of 400 000 ordinary shares of $0.50 each was made at a premium of $0.20 per share. The issue was fully subscribed.

2 At 31 December 2024, the directors decided to revalue property at $820 000.

**(d)** Prepare the statement of changes in equity for the year ended 31 December 2024.

H Limited
Statement of changes in equity
for the year ended 31 December 2024

| | Share capital $ | Share premium $ | Revaluation reserve $ | Retained earnings $ | Total $ |
|---|---|---|---|---|---|
| Balances at 1 January 2024 | | | 95 000 | 112 700 | |
| Share issue | | | | | |
| Dividends paid | | | | | |
| Revaluation of property | | | | | |
| Profit for the year | | | | | |
| Balances at 31 December 2024 | 725 000 | 120 000 | | | |

[6]

**Additional information**

There are plans to expand the business which will require additional finance. The directors are considering two options.

Option A: Make a rights issue of 150 000 ordinary shares of $0.50 each at a premium of $0.20 per share.

Option B: Issue an 8% debenture (2027) for $105 000.

**(e)** Advise the directors which option they should choose. Justify your answer by discussing **both** the advantages and disadvantages of **each** option.

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[Total: 30]

**2** Virat prepared the trial balance at 28 February 2025, the end of his financial year. However, the totals did **not** agree.

Control accounts are **not** maintained by the business.

A check of the entries in the books of account revealed the following errors.

1 A sales invoice, $80, had been debited to the account of Rafiq instead of Raif.

2 A credit note, $170, received from P Limited had been correctly recorded in the book of prime entry but had **not** been posted to the personal account.

3 No record has been made of goods taken by Virat for personal use, valued at cost, $330.

4 The total of the discount received column in the cash book, $97, had been debited to the discounts allowed account as $79.

5 No entries had been made to record the receipt of $370 from Abdul, a credit customer. The balance of his account had been written off in 2024.

(a) Prepare journal entries to correct the errors. Narratives are **not** required.

Journal

| Error | | Dr<br>$ | Cr<br>$ |
|---|---|---|---|
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**Additional information**

Before the errors were corrected, a draft statement of profit or loss for the year ended 28 February 2025 had been prepared, showing a draft profit for the year of $37 320.

**(b)** Calculate a revised figure for profit for the year ended 28 February 2025.

| | $ |
|---|---|
| Draft profit for the year | 37 320 |
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**(c)** Explain why an error of principle would have no effect on the agreement of trial balance totals.

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[Total: 15]

3 Zak has **not** maintained full accounting records for his retail business.

He has provided the following details for the year ended 31 December 2024.

| | $ |
|---|---|
| Purchases | 82 980 |
| Returns outwards | 1 050 |

Inventory levels increased by $2730 during the year ended 31 December 2024.

Zak's policy is to sell all goods to achieve a gross profit margin of 40%.

**(a)** Calculate the revenue for the year ended 31 December 2024.

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**Additional information**

Zak is not certain how much the business is owed by its credit customers at 31 December 2024. The following information is available.

1 At 1 January 2024, credit customers owed $11 880.

2 Credit sales are 75% of total sales.

3 Bank statements show that $96 900 was received from credit customers during the year ended 31 December 2024.

4 Some credit customers were given a 5% cash discount for prompt payment. Zak estimates that 20% of all receipts from credit customers were made after deducting the cash discount.

**(b)** Calculate the amount owed by credit customers at 31 December 2024.

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**Additional information**

Zak would like to improve the credit control of his business.

**(c)** Identify **two** ways, other than allowing a cash discount, in which credit control can be improved.

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(d) State **two** benefits of improving credit control.

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**Additional information**

Zak has decided to prepare full accounting records in future, using a computerised accounting system. However, he is concerned about the security of data.

(e) State **three** ways in which the security of data can be ensured within a computerised accounting system.

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[Total: 15]

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

**(a)** Define the following terms:

**(i)** contribution

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**(ii)** fixed costs

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**(iii)** margin of safety.

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**Additional information**

Currently, the factory is operating at full capacity of 8300 units per month. All production is sold. The following details are available about the single product.

| Per unit | $ |
|---|---|
| Selling price | 36 |
| Direct labour | 17 |
| Direct materials | 8 |
| Fixed costs | 6 |

The directors have a target profit of $35 000 per month.

**(b)** Calculate the following in units:

**(i)** break-even point

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**(ii)** margin of safety.

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**(c)** Calculate the amount by which the monthly target profit is exceeded.

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**Additional information**

At a second factory, two products are currently being made, Product Exe and Product Wye. The following budgeted information is available.

| | Product Exe | Product Wye |
|---|---|---|
| Selling price per unit | \$40 | \$38 |
| Direct materials per unit | \$14 | \$15 |
| Direct labour per unit | 1.5 hours at \$8 per labour hour | 1.25 hours at \$8 per labour hour |
| Monthly capacity | 14 000 units | 4000 units |
| Monthly output and sales | 85% of capacity | 100% of capacity |

The factory's fixed costs per month are \$126 000.

The directors are aware that an overseas supplier could provide Product Wye resulting in a contribution to M Limited of \$17 per unit. The overseas supplier can supply 3000 units per month.

The directors are considering two options.

Option A

Continue with the production and sales of both Products Exe and Wye as now.

Option B

1 Stop production of Product Wye, and buy in 3000 units from the overseas supplier.

2 Most direct labour currently making Product Wye would be used to make additional units of Product Exe so that output reaches full capacity.

3 To sell all output of Product Exe, the selling price of all units of Product Exe would be reduced by 2.5%.

4 The directors will negotiate an increase in trade discount from 20% to 25% on all purchases of direct materials for Product Exe.

5 Direct labour currently producing Product Wye would require retraining at a cost of \$5000 to be written off at the start of the first month of operation.

6 The machinery currently used for production of Product Wye has a carrying value of \$23 000 and would be written off at the start of the first month of operation.

**(d)** Prepare a marginal costing statement for Option A to show the **total** monthly profit being made.

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(e) Calculate the **total** profit to be made in the first month of operation if Option B is adopted.

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**(f)** Advise the directors which option they should choose. Justify your choice by discussing **both** financial and non-financial factors for **each** option.

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[Total: 30]

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