Cambridge Assessment International Education

PLATINUM BUSINESS ACADEMY
0777898626

Cambridge International AS & A Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

7334163468

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 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 **20** pages. Blank pages are indicated.

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1 Tariq owns a retail business but does not maintain full accounting records. All goods are purchased on credit, but all sales are on a cash basis.

Tariq provided the following information for the year ended 30 September 2019.

	$
Trade payables	
1 October 2018	4980
30 September 2019	7220
Payments to trade payables	70300
Discounts received	940

REQUIRED

(a) Calculate credit purchases for the year ended 30 September 2019.

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Additional information

Assets and other liabilities

	30 September **2019** $	1 October **2018** $
Furniture and equipment at valuation	28300	26800
Inventory	8080	7410
Other receivables: rent prepaid	–	990
Cash at bank	1960	3360
Cash in hand	410	820
Bank loan	15000	12000
Other payables: rent accrued	1040	

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Summary of information taken from bank statements

	$
Receipts	
Cash takings banked	112 400
Additional bank loan	3 000
Payments	
Trade payables	70 300
Rent of premises	14 930
New furniture	5 200
Accountant's fees	640
Loan interest	580
Drawings	25 150

Tariq took goods for personal use valued at cost $390 during the year.

REQUIRED

(b) Calculate the depreciation of furniture and equipment for the year ended 30 September 2019.

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Additional information

Tariq took some cash from the cash box as drawings during the year. However, no record was made of the amounts withdrawn. The following information is also available about cash.

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Cash sales	133 200
Wages of assistant	18 800

REQUIRED

(c) Calculate Tariq's cash drawings for the year ended 30 September 2019.

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(d) Prepare the income statement for the year ended 30 September 2019.

Tariq
Income statement for the year ended 30 September 2019

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Workings:

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(e) Explain the accounting concepts of:

(i) business entity

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.... [2]

(ii) substance over form.

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Additional information

Tariq has become concerned about his business's liquidity. He is considering two options.

Option 1: reduce the inventory levels
Option 2: delay payments to suppliers

REQUIRED

(f) Advise Tariq which of these actions he should take. Justify your advice.

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[Total: 30]

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2 Q Limited is a small wholesale business. It uses the reducing balance method of depreciation to depreciate delivery vehicles.

REQUIRED

(a) Explain **one** advantage and **one** disadvantage to a business of using the reducing balance method of depreciation.

Advantage

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Disadvantage

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[4]

Additional information

Delivery vehicle A was purchased on 1 January 2018 for $36 000.
Delivery vehicle B was purchased on 1 April 2018 for $40 000.
Depreciation of 20% per annum has been provided annually using the reducing balance method.
A full year's depreciation is charged in the year of acquisition and none in the year of disposal.
The business's financial year end is 31 December.

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REQUIRED

(b) Calculate the balance of the delivery vehicles provision for depreciation account at 31 December 2019.

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Additional information

On 1 February 2020 delivery vehicle C was purchased at a cost of $38 000. Delivery vehicle B was sold in part-exchange for delivery vehicle C. A cheque for $30 000 was paid on that date in full settlement of the amount remaining after part-exchange.

REQUIRED

(c) Prepare the delivery vehicles cost account.

Delivery vehicles cost account

	$		$

[5]

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Additional information

Delivery vehicles are depreciated because they are subject to wear and tear.

REQUIRED

(d) State **two** reasons, other than wear and tear, for depreciating non-current assets.

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2 ....

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[2]

[Total: 15]

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PLEASE TURN OVER

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3 Xu and Zoe have been in partnership for a number of years. They decided to dissolve their partnership on 1 October 2019.

REQUIRED

(a) State **three** reasons why a partnership might be dissolved.

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3 ....

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Additional information

The partners did not have a formal agreement on sharing of profits and losses.
At the date of the dissolution the partnership's statement of financial position was as follows.

Statement of financial position at 1 October 2019

Assets	$	$
Non-current assets at net book value		
Motor vehicle	19400	
Furniture and equipment	11900	
		31300
Current assets		
Inventory	7480	
Trade receivables	11200	
		18680
Total assets		49980
Capital and liabilities		
Capital accounts		
Xu	18000	
Zoe	22000	
		40000
Current accounts		
Xu	(2480)	
Zoe	430	
		(2050)
Total capital and current accounts		37950
Loan account: Xu		4300
Current liabilities		
Trade payables	5400	
Bank overdraft	2330	
		7730
Total capital and liabilities		49980

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The following information is also available.

1 Xu took the motor vehicle at an agreed value of $15 100.

2 The account of a credit customer, $800, had to be written off as irrecoverable. The accounts of remaining trade receivables were settled in full less a 5% cash discount.

3 Other assets were sold for cash.

	$
Furniture and equipment	7300
Inventory	6530

4 The accounts of trade payables were settled in full less a 5% cash discount.

5 The costs of dissolution, $620,were paid by cheque.

REQUIRED

(b) Prepare the realisation account.

Realisation account

	$		$

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(c) Calculate the amount due to, or from, Xu as a result of the dissolution.

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[Total: 15]

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PLEASE TURN OVER

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4 DL Limited will soon be introducing a system of budgetary control. The directors are aware that this should provide a number of advantages. However, they are not sure how budgetary control will affect the company's departmental managers.

REQUIRED

(a) Explain **three** ways in which the introduction of a system of budgetary control will affect the departmental managers of a business.

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Additional information

DL Limited manufactures a single product at one of its factories. The following information is available about one unit of production.

Selling price	$69
Direct materials	2 kg at $3.30 per kg
Direct labour	5.2 hours at $8.30 per hour
Other variable costs	$2.24

The factory's fixed costs are $374 000 per annum.
The factory has the capacity to make 28 000 units per annum in normal working conditions.

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REQUIRED

(b) Calculate the contribution per unit.

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Additional information

The annual target profit for this factory is $50 000. During the year ended 31 December 2019 24 500 units were made and sold and the target profit was not achieved.

REQUIRED

(c) Calculate by how much the target profit was **not** achieved for the year ended 31 December 2019.

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Additional information

The directors are considering two options to increase demand for the product above the current level of 24 500 units. The current factory capacity of 28 000 units could increase by a maximum of 20% by the use of overtime. Overtime will be paid at 1.25 times the basic rate.

Option A

1 Reduce the selling price of the product by $3 per unit.

2 Demand will increase by 40% on 2019 levels.

3 Suppliers of materials will provide an additional discount of 5%.

4 Fixed costs will not be affected.

Option B

1 Borrow $20 000 at an interest rate of 8% per annum to finance improvements to machinery.

2 This machinery will be depreciated at 20% per annum.

3 The cost of material will be reduced to $3 per kg.

4 An advertising campaign will be launched at a cost of $5000 per month.

5 The factory will operate at full capacity without the need for overtime working.

6 The selling price per unit will remain unchanged.

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REQUIRED

(d) Calculate the annual profit if the directors choose:

(i) Option A

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(ii) Option B

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(e) Advise the directors which option they should choose, taking account of financial and non-financial factors. Justify your choice.

[7]

[Total: 30]

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