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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

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* 3 4 9 2 2 3 6 1 8 1 *

ACCOUNTING **9706/22**

Paper 2 Fundamentals of Accounting **February/March 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 **24** pages. Any blank pages are indicated.

1 Sara and Viraj are in partnership and own a wholesale business.

At 1 January 2024, the partners had the following balances.

	Sara $	Viraj $
Capital	80000	112000
Current account	1840 debit	2730 credit

During the year ended 31 December 2024, the following drawings had been recorded.

	$
Sara	22960
Viraj	18930

The following balances were also available at 31 December 2024.

	$
Bank overdraft	4970
Non-current assets at carrying amount	150700
Inventory	18400
Other payables	410
Other receivables	300
Trade payables	16300
Trade receivables	19980

The draft profit for the year ended 31 December 2024 was $9400 **before** accounting for the following:

1 Wages, $850, were owing.

2 A credit customer, owing $1200, had gone out of business. The partners believe that 20% of the amount outstanding will be recovered, and the remaining 80% is to be written off.

3 The partners have decided to create an allowance for irrecoverable debts of 5% of trade receivables.

4 Viraj had taken goods for own use valued at cost, $550.

5 Viraj had provided a loan to the partnership on 1 May 2024 of $7200 at 8% interest per annum. The loan is repayable in full at the end of five years. Interest on the loan had **not** been accounted for.

6 Closing inventory had been understated by $3000.

7 Sara had introduced into the business a motor vehicle, valued at $20400, on 1 September 2024.

Motor vehicles are depreciated by 20% per annum using the straight-line method on a month-by-month basis.

(a) Calculate the revised profit for the year ended 31 December 2024.

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Additional information

The partners share profits and losses in the ratio Sara : Viraj, 2 : 1, after providing for the following:

1 Interest is charged on each partner's drawings at 5% on the total of drawings for the year in excess of $10 000.

2 Sara is entitled to a salary of $12 000 per annum.

(b) Prepare the appropriation account for the year ended 31 December 2024.

Appropriation account for the year ended 31 December 2024

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(c) Prepare the current account of Viraj for the year ended 31 December 2024.
Dates are **not** required.

Viraj Current account

	$		$

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Additional information

On 31 December 2024, the balance of Sara's current account was $15 070 debit.

(d) Prepare an extract from the statement of financial position at 31 December 2024 showing the **capital and liabilities** section **only**.

Statement of financial position at 31 December 2024

Capital and liabilities

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(e) Explain, with reference to an accounting concept, the correct treatment of:

(i) goods taken for own use by the owner of a business

Concept: ....

Explanation: ....

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(ii) irrecoverable debts.

Concept: ....

Explanation: ....

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Additional information

The partners are concerned about the liquidity of the business. The current credit terms are 30 days for both credit suppliers and credit customers.

They have noticed that some credit customers are delaying the settlement of their invoices, whilst credit suppliers are always paid within 30 days. They are considering two options:

Option A: introducing a 5% cash discount for all credit customers' invoices settled within 25 days.

Option B: paying credit suppliers within 35 days.

(f) Advise the partners which option they should choose. Justify your answer by discussing **both** options.

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[Total: 30]

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2 Moe runs a trading business and maintains control accounts as a part of the double entry.

The following information is available for the month of November 2024.

	$
Balance of sales ledger control account at 1 November 2024	18 320
Contra entry with purchases ledger control account	139
Credit sales	41 735
Discounts allowed	3 071
Interest charged on overdue accounts	84
Irrecoverable debt written off	478
Receipts from credit customers	39 202
Sales returns	883

(a) Prepare the sales ledger control account for November 2024. Dates are **not** required.

Sales ledger control account

	$		$

[5]

Additional information

On 31 December 2024, the following information was available.

	$
Total of balances in the sales ledger	22 350
Sales ledger control account balance	23 964

The following errors were discovered, which accounted for the difference.

1 The balance of a credit customer's ledger account had been overstated by $189.

2 The total of the sales returns journal, $210, had been posted to the debit side of the control account as $120.

3 The discount column totals in the cash book had not been posted:
column on debit side total $283
column on credit side total $319.

4 No entries had been made in the books of account to record a dishonoured cheque for $640.

5 An irrecoverable debt of $892 had been recorded correctly in the customer's ledger account but had been debited to the sales ledger control account as $298.

(b) Calculate the corrected figure for:

(i) the total of balances in the sales ledger

	$
Original total of balances in the sales ledger	22 350
Corrected total of balances in the sales ledger	

[3]

(ii) the sales ledger control account balance

	$
Original sales ledger control account balance	23 964
Corrected sales ledger control account balance	

[5]

(c) State **two** benefits of preparing control accounts.

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[Total: 15]

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3 The following balances had been extracted from the books of W Limited on 1 January 2024.

	$
Share capital (ordinary shares of $0.50 each)	750 000
Share premium	145 000
Retained earnings	154 000
Revaluation reserve	90 000

During the year ended 31 December 2024, the following occurred:

1 April	Property was revalued at $690 000. Before this date, property was valued at $800 000.
30 June	An interim dividend of $0.05 per share was paid.
1 October	A rights issue of two ordinary shares for every three ordinary shares held at this date was made. The shares were issued at a premium of $0.20 per share. The rights issue was fully subscribed.

The profit for the year ended 31 December 2024 was $148 000.

(a) Prepare the following ledger accounts for the year ended 31 December 2024.

Ordinary share capital account

		$			$

Share premium account

		$			$

Retained earnings account

		$			$

Revaluation reserve account

		$			$

Workings:

[9]

(b) State **two** features of capital reserves.

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(c) State **two** differences between a rights issue of shares and an issue of debentures.

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[Total: 15]

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4 D Limited is a manufacturing company which uses absorption costing.

The factory has two production departments, Cutting and Finishing. It also has two service departments, Stores and Canteen.

Some budgeted overheads have been allocated to departments as follows:

		Production departments		Service departments	
	Total $	Cutting $	Finishing $	Stores $	Canteen $
Overheads allocated	424 560	183 270	145 990	45 380	49 920

The following budgeted overheads have yet to be allocated or apportioned.

	$
Supervisor's salary: Cutting department	28 200
Supervisor's salary: Finishing department	26 300
Depreciation of machinery	87 000
Rent	48 000

Apportionment is based on the following information.

	Cutting	Finishing	Stores	Canteen
Cost of machinery ($)	220 000	152 000	37 000	26 000
Floor area (m^2)	1500	890	280	330
Issues from stores	84	43	-	-
Number of employees	45	31	6	-

(a) Complete the following table to show the apportionment of overheads and the reapportionment of service department overheads.

		Production departments		Service departments	
	Total $	Cutting $	Finishing $	Stores $	Canteen $
Overheads allocated	424 560	183 270	145 990	45 380	49 920
Subtotal					
Reapportionment Canteen department					
Subtotal					
Reapportionment Stores department					
Total overheads					

[5]

Additional information

Budgeted hours for each production department were as follows:

	Cutting	Finishing
Labour hours	6350	7144
Machine hours	8220	5172

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

Cutting department

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Finishing department

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Additional information

The Stores department issues component X to the Finishing department. The weighted average cost (AVCO) method of inventory control is used by the Stores department.

The following details about this component are available for January 2025.

On 1 January 2025, the Stores department held six component X in inventory which had cost $8 each.

	Receipts of X	Issues of X
6 Jan	12 at $8 each	
9 Jan		7
16 Jan	8 at $9 each	
21 Jan		13
27 Jan	10 at $10 each	

(c) Complete the following table to show the value of the closing inventory of component X, using AVCO.

	Inventory valuation $
1 Jan	48
6 Jan	
9 Jan	
16 Jan	
21 Jan	
27 Jan	

Workings:

[5]

Additional information

D Limited uses marginal costing at another factory where two products, Bee and Cee, are made. The following forecast information is available for August 2025.

	Bee	Cee
Selling price per unit	$173	$156
Direct materials (at $4 per kg)	7 kg	9 kg
Direct labour hours (at $9 per hour)	14 hours	11 hours
Contribution per unit	$19	$21
Production and sales (units)	60	50

Fixed costs are $1100 per month.

The supplier of direct materials has notified the directors that delivery problems will mean that in August 2025 only 70% of the forecast requirement for direct materials will be available.

The directors are considering two options for August 2025.

Option A: Organise production in order to produce the maximum profit with the available materials.

Option B: Purchase additional materials from a new overseas supplier to make up the shortfall. The supplier charges $5 per kg.

(d) Calculate the profit to be made in August 2025 for **each** option.

(i) Option A

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(ii) Option B

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(e) Advise the directors which option they should choose. Justify your answer.

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