



Cambridge International AS & A Level

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ACCOUNTING

9706/22

Paper 2 Structured Questions

February/March 2021

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.

1 Faraz, Javed and Leah were in partnership. Their agreement included the following terms:

- 1 Interest on drawings to be charged at 5% on total drawings for the year.
- 2 Interest at 12% per annum to be provided on fixed capitals.
- 3 Javed to receive a salary of \$9000 per annum.
- 4 Remaining profits and losses to be shared in the ratio Faraz, Javed and Leah, 4:3:3 respectively.

The following information was available for the year ended 31 December 2020.

	Faraz \$	Javed \$	Leah \$
Balances at 1 January 2020			
Capital accounts	80 000	60 000	50 000
Current accounts	3 400 credit	2 900 debit	1 700 debit
For the year ended 31 December 2020			
Drawings	22 400	17 200	20 200

The profit for the year ended 31 December 2020, before appropriation, was \$31 500.

REQUIRED

(a) State **two** reasons why partnership agreements sometimes include a provision to charge interest on drawings.

- 1
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- 2
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[2]

(c) Prepare Javed's current account for the year ended 31 December 2020.

Javed
Current account

	\$		\$

[6]

Additional information

On 1 January 2021, Javed retired from the partnership. It was agreed that on this date:

- 1 Javed would keep some equipment for personal use. The equipment had a net book value of \$15 400 and was to be transferred to Javed at a value of \$13 000.
- 2 Other non-current assets were to be revalued upwards by \$24 000.
- 3 Goodwill was valued at \$50 000. A goodwill account was not to be maintained in the partnership's books.

REQUIRED

(d) Explain the meaning of goodwill.

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[2]

(e) Explain why a valuation of goodwill could be made when a partner retires.

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[2]

(f) Prepare a statement to show the amount due to Javed on his retirement from the partnership.

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[6]

2 Myra owns a delivery business. The following information is available about her business’s delivery vehicles.

Vehicle	Date of purchase	Cost \$
A	1 August 2017	30 000
B	1 February 2018	36 000
C	1 June 2019	39 000

Vehicles are depreciated using the straight-line method at 20% per annum. Depreciation is charged on a month-by-month basis. The business’s financial year end is 31 December.

REQUIRED

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

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[4]

Additional information

On 1 March 2020, Vehicle A was sold in part exchange for Vehicle D. Vehicle D cost \$42 000 of which \$29 200 was paid by cheque.

REQUIRED

(b) Prepare the vehicle disposal account.

Vehicle disposal account

	\$		\$

[5]

- (c) Prepare the provision for depreciation of vehicles account for the year ended 31 December 2020.

Provision for depreciation of vehicles account

	\$		\$

[3]

Additional information

Businesses may use the revaluation method of depreciation for some of their non-current assets.

REQUIRED

(d) Explain **one** reason why some businesses may use the revaluation method of depreciation.

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[2]

(e) State how an annual depreciation charge is calculated using the revaluation method.

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[1]

[Total: 15]

3 The directors of B Limited have provided the following information.

Statement of financial position at 31 December 2020

Assets	\$
Non-current assets	656 000
Current assets	
Inventory	34 000
Trade receivables	31 000
	<u>65 000</u>
Total assets	<u>721 000</u>
Equity and liabilities	
Equity	
Issued share capital	500 000
Share premium	67 000
Retained earnings	68 000
Total equity	<u>635 000</u>
Non-current liabilities	
8% Debenture (2025)	50 000
	<u>50 000</u>
Current liabilities	
Trade payables	19 000
Cash and cash equivalents	17 000
	<u>36 000</u>
Total liabilities	<u>86 000</u>
Total equity and liabilities	<u>721 000</u>

- 1 The company’s revenue for the year ended 31 December 2020 was \$540 000 of which 60% was on credit.
- 2 The company’s profit for the year was \$80 000.

REQUIRED

(a) Calculate the following ratios at 31 December 2020.

(i) Current ratio (to **two** decimal places)

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[1]

(ii) Trade receivables turnover (days)

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[1]

(iii) Return on capital employed (to **two** decimal places)

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[2]

Additional information

The following ratios are available for **2019** along with comparative ratios for **2018**.

	At 31 December 2019	At 31 December 2018
Current ratio	2.20 : 1	2.10 : 1
Trade receivables turnover	37 days	38 days
Return on capital employed	15.57%	14.32%

REQUIRED

(b) Compare the company's position at 31 December **2020** with that of the previous two years in regard to the following ratios:

(i) Current ratio

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[2]

(ii) Trade receivables turnover (days)

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[2]

(iii) Return on capital employed

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[2]

(c) State **two** ways in which a company could improve its current ratio.

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2

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[2]

Additional information

Companies compare their financial performance with that of different businesses.

REQUIRED

(d) State **three** limitations of comparing the financial performance of different businesses.

- 1
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- 2
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- 3
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[3]

[Total: 15]

4 K Limited produces goods at two sites and uses marginal costing.

At one site the company makes a single product. The following details are available.

Maximum capacity	14 500 units per month
Fixed costs	\$216 000 per month
	\$
Unit selling price	90
Costs per unit:	
Direct materials	25
Direct labour	36
Other variable costs	11

REQUIRED

(a) Calculate the break-even point per month in units.

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[2]

(b) Define the term 'margin of safety'.

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[2]

Additional information

The directors have decided to make the following changes:

- 1 Reduce selling price by 2%.
- 2 Introduce a sales commission of \$2 per unit on every unit sold in excess of 5000 units per month.
- 3 Purchase direct materials in bulk and obtain a trade discount of 20%.

Buying direct materials in bulk will increase storage costs by \$4000 per month.

Demand will be 98% of factory capacity.

REQUIRED

(c) Prepare a marginal costing statement to show the monthly profit based on these changes.

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[6]

(d) Explain **two** advantages of using a system of marginal costing.

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[4]

Additional information

At its other site the company makes three products: Product X, Product Y and Product Z. The following details are available.

	Product X	Product Y	Product Z
Contribution per unit	\$15	\$20	\$27
Machine hours per unit	1.5	2.5	3
Maximum monthly output in units	600	300	200

Fixed costs per month are \$14 100.

Each month the company plans to work to full capacity producing the maximum output of each product.

In August 2021 only two-thirds of the month’s machine hours will be available.

REQUIRED

(e) Calculate the machine hours available in August 2021.

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[2]

Additional information

The company has a regular order to supply one major customer with 50% of the output of each product per month.

Two options are being considered to deal with the shortage of machine hours.

Option 1: The finance director has recommended the company makes the maximum profit possible in August 2021 and if necessary not complete all of the major customer’s order.

Option 2: The sales director has recommended that the company should ensure it fulfils the major customer’s order.

(g) Advise which option the company should choose. Justify your advice by discussing **both** options. (Consider **both** financial and non-financial factors.)

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[5]

[Total: 30]

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