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ACCOUNTING

9706/22

Paper 2 Fundamentals of Accounting

February/March 2026

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. Do **not** use correction fluid or tape.
- 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 **16** pages.

- 1 Houssam owns a retail business. He does **not** maintain full accounting records. All sales are made on a cash basis. Purchases of goods for resale are made in cash and on credit.

At 1 January 2025, the business's assets and liabilities included the following:

	\$
10% bank loan (repayable 2028)	8 400
furniture and equipment at carrying value	20 800
inventory	8 792
other payable: general expenses	183
other receivable: rent	320
trade payables	4 914

The following information is available for the year ended 31 December 2025.

- 1 The summary of receipts and payments shown on bank statements is as follows:

	\$
receipts	
cash takings	79 320
proceeds from disposal of equipment	945
	<u>80 265</u>
payments	
additional equipment	3 200
bank loan interest	630
carriage inwards	148
drawings	14 880
general expenses	4 410
rent	8 380
trade payables	35 724
	<u>67 372</u>

- 2 There were unrepresented cheques of \$680 for payments to trade payables at the year end.
- 3 Payments to trade payables were made after deducting cash discounts of \$390.



- 4 Cash takings were banked after making the following payments:

	\$
drawings	2 850
purchases of goods for resale	3 172
wages	13 860

- 5 The equipment sold during the year had a carrying value of \$800 at the time of sale.

- 6 At 31 December 2025:

- furniture and equipment was valued at \$19 500
- rent of \$510 was owing
- general expenses of \$770 were prepaid
- the balance of trade payables was \$5 520
- inventory was valued at \$11 434.

- (a) Calculate the total purchases of goods for resale for the year ended 31 December 2025.

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..... [5]



Workings:

revenue

cost of sales

depreciation

general expenses

rent

[14]



- (c) Explain, with reference to the relevant accounting concept, how drawings are treated in the financial statements of a business.

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..... [2]

- (d) State **two** reasons why Houssam may have chosen **not** to maintain full accounting records.

1

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2

..... [2]





Additional information

Houssam has now decided that he will need to maintain more detailed accounting records. He is considering using a computerised accounting system.

- (e)** Advise Houssam whether or not he should use a computerised accounting system. Justify your answer by considering the advantages and disadvantages of computerised accounting systems.

[7]

[Total: 30]



- 2 A business has a year end of 31 December. On 1 January 2025, the business owned three vehicles.

vehicle	cost \$	date of purchase
A	30 000	1 January 2023
B	24 000	1 July 2024
C	33 000	1 August 2024

Vehicles are depreciated by 20% per annum using the straight-line method. The policy is to provide depreciation on a month-by-month basis in the year of purchase but none in the year of sale.

- (a) Calculate the total carrying value of vehicles at 1 January 2025.

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..... [4]

Additional information

On 1 September 2025, vehicle D, cost \$35 000, was acquired. Vehicle A was given in part exchange, and the balance was settled by a bank transfer of \$18 200.

- (b) Prepare the vehicles at cost ledger account for the year ended 31 December 2025.

Vehicles at cost

date	details	\$	date	details	\$

[4]



(c) Calculate the profit or loss on disposal of vehicle A.

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..... [3]

(d) Explain **two** accounting concepts which are applied when non-current assets are depreciated.

concept 1

explanation

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concept 2

explanation

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..... [4]

[Total: 15]



- 3 The statement of financial position of N plc at 1 January 2025 included the following:

equity	\$
issued capital: ordinary shares of \$0.25 each	660 000
share premium	175 000
revaluation reserve	110 000
retained earnings	367 000
total equity	1 312 000

During the year ended 31 December 2025, the following took place:

1 April	Property was revalued at \$740 000 from \$880 000.
1 July	A bonus issue of 3 ordinary shares for every 5 ordinary shares held on this date was made. Reserves were maintained in their most flexible form.
1 September	A dividend of \$0.02 per share was paid on all shares in issue at this date.
1 December	A rights issue of 1 ordinary share for every 3 ordinary shares in issue at this date was made. The shares were issued at \$0.35 per share. The issue was fully subscribed.

The profit for the year ended 31 December 2025 was \$92 500.

- (a) Prepare the statement of changes in equity for the year ended 31 December 2025.

N plc
Statement of changes in equity for the year ended 31 December 2025

	share capital \$	share premium \$	revaluation reserve \$	retained earnings \$	total \$
at 1 January 2025	660 000	175 000	110 000	367 000	1 312 000
at 31 December 2025					

[9]



(b) Explain **two** advantages to a company of making a rights issue of shares rather than a new issue of shares.

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[4]

Additional information

The directors are considering creating a general reserve.

(c) Explain **one** reason for creating a general reserve.

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..... [2]

[Total: 15]



4 V Limited makes one type of product and uses marginal costing.

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

(i) marginal cost

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 [1]

(ii) stepped costs.

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 [1]

Additional information

The following information is available about current production.

	per unit
selling price	\$84
direct materials	3 kg at \$8 per kg
direct labour	4 hours at \$12 per hour

Units made and sold per month: 3600

Fixed costs per month: \$28 260

(b) Calculate the current profit per month.

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 [3]



Additional information

The directors have made the following decisions:

- Increase the labour rate per hour by 5%.
- Set a target profit per month of \$18 000.
- Maintain current levels of production and sales.

The directors are aware that they will need to increase the selling price per unit as a result of these decisions.

(c) Calculate the **increase** in the selling price per unit in order to achieve the target profit.

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..... [5]



Additional information

At another factory, which also uses marginal costing, a different product is made. The following forecast information is available.

	per unit \$
selling price	28
direct materials	9
direct labour	12

Units made and sold per month: 8000

Fixed costs per month: \$28 700

The factory is currently operating at full capacity.

The directors have been informed of a large increase in direct material costs of 50% per unit. They are considering two options.

option A

- Alter the design of the product so that 20% less materials are required to make one unit.
- Increase monthly expenditure on advertising by \$4000 as a result of which monthly demand should increase by 10%. The factory can operate in overtime conditions.
- In overtime conditions, direct labour is paid a premium of 40%.

option B

- Order all direct materials from a new supplier.
- Maintain current levels of production and sales.
- This supplier will also charge the increased cost per unit but is prepared to offer a trade discount of 30% for making bulk orders.





(d) Prepare marginal costing statements to show the **monthly** profit to be made for **each** option.

(i) option A

[7]

(ii) option B

[6]





Additional information

All direct materials are ordered from one supplier. Under option A, the Just in Time (JIT) method of inventory control is used. It is **not** possible to use JIT for option B.

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

[7]

[Total: 30]

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