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ACCOUNTING

9706/23

Paper 2 Fundamentals of Accounting

May/June 2023

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 **16** pages.

1 Hamza owns a retail business with a financial year end of 31 December.

On 31 December 2022 inventory was valued at \$15 330. However, this figure included 30 damaged items which had a cost price of \$32 each. Of the damaged items, 23 will be scrapped with no value. The remaining 7 items will require repairs costing a total of \$126 before being sold at the normal price of \$48 each.

REQUIRED

(a) Explain, with reference to an accounting concept, how damaged inventory should be valued.

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..... [2]

(b) Calculate the corrected valuation of inventory at 31 December 2022.

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..... [4]

Additional information

The following information has been extracted from the books of account at 31 December 2022.

	Dr	Cr
	\$	\$
Administrative expenses	14 380	
Carriage inwards	1 720	
Carriage outwards	3 860	
Discounts	840	620
Furniture and equipment		
Cost	36 000	
Provision for depreciation		11 800
Inventory at 1 January 2022	16 780	
Insurance	4 320	
Purchases	182 770	
Rent payable	17 000	
Returns	5 460	4 810
Revenue		299 490
Trade receivables	18 460	
Wages	37 330	

At 31 December 2022:

- 1 No record had been made of goods taken by the owner for his own use, cost \$550.
- 2 The balance of \$760 on a credit customer's account is to be written off as irrecoverable.
- 3 An allowance for irrecoverable debts of 5% is to be created based on the amount outstanding from credit customers.
- 4 Rent of \$5100 is paid at the end of every three months. Rent for the three months ending 31 January 2023 is accrued.
- 5 The policy is to depreciate furniture and equipment by 20% per annum using the straight-line method on a month-by-month basis. However, the furniture and equipment account includes equipment purchased during the year that cost \$6500 and on which depreciation of \$650 has not yet been charged.

Workings:

[15]

(d) State the double entry required to record goods withdrawn by an owner for personal use.

Debit:

Credit:

[2]

Additional information

Hamza is concerned that the performance of the business has declined in recent months. He is considering two options to increase the gross profit of the business.

Option A: Purchase goods from a different supplier who is prepared to offer a large trade discount. Hamza would need to order in bulk, but less frequently than now.

Option B: Increase selling prices and increase monthly expenditure on advertising.

REQUIRED

(e) Advise Hamza which option he should choose. Justify your answer by considering **both** financial and non-financial factors.

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[7]
[Total: 30]

- 2 Veda owns a retail business. Her accountant advised her to prepare a trial balance.

REQUIRED

- (a) State **two** benefits of preparing a trial balance.

1

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2

.....

[2]

Additional information

On 31 March 2023 Veda prepared a trial balance but the totals did not agree. The debit column totalled \$84 050 and the credit column totalled \$83 350. The difference was posted to a suspense account.

The following errors were identified and corrected after which the trial balance totals agreed.

- 1 A payment of \$740 to Opal Stores was recorded in the account of Opal Wholesale.
- 2 Sales returns of \$340 from Kali had been correctly recorded in the sales returns journal, but \$430 had been posted to the debit side of Kali's account.
- 3 The discount columns in the cash book had not been posted to the general ledger. Discounts allowed totalled \$530 and discounts received totalled \$370.
- 4 A cheque for \$560 received from W Limited had been dishonoured. The dishonoured cheque was entered correctly in the cash book but had been posted as \$650 to the customer's account.

REQUIRED

(b) Prepare journal entries to correct **each** of the errors. Dates and narratives are **not** required.

Journal

Account	Dr \$	Cr \$

[7]

(c) Prepare the suspense account at 31 March 2023. Dates are **not** required.

Suspense account

	\$		\$

[4]

(d) Define the term 'error of principle'.

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.....
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..... [2]

[Total: 15]

- 3 On 1 January 2022 the directors of J Limited made a bonus issue of two ordinary shares for every three ordinary shares held. The following is an extract from the company's statement of financial position immediately **after** the bonus issue.

Equity	\$
Ordinary shares of \$0.50 each	1 000 000
Retained earnings	<u>120 000</u>
Total equity	<u>1 120 000</u>

The directors financed the issue 60% from the share premium account and the remainder from retained earnings.

REQUIRED

- (a) Prepare an extract from the statement of financial position immediately **before** the bonus issue, showing the equity section.

Equity	\$
Ordinary shares of \$0.50 each	
Share premium	
Retained earnings	
Total equity	

Workings:

[5]

Additional information

J Limited's financial year ends on 31 March. On 31 March 2021 the directors paid an annual ordinary share dividend of 20%. However, on 31 March 2022 the directors decided that the annual ordinary share dividend would amount to \$0.05 per share.

Hassan is a shareholder in the company. He owned 7200 shares before the bonus issue on 1 January 2022.

REQUIRED

(b) Calculate the change in the amount of dividend received by Hassan, comparing the dividend at 31 March 2022 with the dividend at 31 March 2021.

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..... [5]

(c) State **two** differences between capital reserves and revenue reserves.

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..... [2]

(d) State **three** reasons why the directors of a company might reduce the total dividends payable.

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2
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3
..... [3]

[Total: 15]

4 V Limited is a manufacturing company which uses marginal costing.

REQUIRED

(a) Define:

marginal cost

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.....

contribution

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break-even point.

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.....

[3]

Additional information

The following information is available for a single type of product made at one of the company's factories.

	Per unit	\$
	Selling price	52
	Direct materials	16
	Direct labour	18

Fixed costs per month are \$36 900. Maximum output per month is 2500 units. The factory operates at full capacity.

REQUIRED

(b) Calculate the break-even point:

(i) in units

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.....
.....

[2]

(ii) in sales value.

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[1]

Additional information

V Limited produces a different single type of product at **another** factory.

The following details are available:

Selling price per unit	\$26
Contribution per unit	\$8
Fixed costs per month	\$52 000
Factory capacity per month	18 000 units

Currently the factory is operating at 85% capacity. All products are sold to regular customers.

The directors are considering accepting an order from a new customer. The following details are available:

- 1 The order is for 4200 units per month.
- 2 The customer is considering making a regular order for this quantity.
- 3 The customer wishes the product to be packaged differently. This will add \$0.50 per unit to variable costs and will require investment in new machinery, adding \$1000 per month to fixed costs.
- 4 The customer has offered to pay \$24 per unit.

The directors are considering two options.

Option A: Reject the order from the new customer.

Option B: Accept the order from the new customer, operate the factory at full capacity and reduce the number of units supplied to regular customers.

REQUIRED

(d) Calculate the profit per month to be made under each option.

(i) Option A

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..... [1]

(ii) Option B

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..... [5]

(f) Explain **two** advantages to a business of using absorption costing.

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2

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[4]

[Total: 30]

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