



# Cambridge International AS & A Level

CANDIDATE  
NAME

CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**ACCOUNTING**

**9706/22**

Paper 2 Structured Questions

**October/November 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 **16** pages. Any blank pages are indicated.

1 The following balances have been extracted from the books of P Limited at 31 August 2021.

	\$
5% Debentures (2022–2023)	36 000
Administrative expenses	35 180
Bank	4 770 Credit
Carriage inwards	390
Delivery vehicles	
Cost	89 420
Provision for depreciation at 1 September 2020	42 200
Distribution costs	44 320
Dividend paid	3 000
Freehold property at valuation at 31 August 2020	66 000
Interest paid	1 590
Inventory at 1 September 2020	22 880
Purchases	88 900
Revenue	216 600
Retained earnings	24 200
Returns outwards	260
Revaluation reserve	6 000
Share capital (ordinary shares of \$0.50 each)	60 000
Share premium	8 500
Trade payables	11 730
Trade receivables	32 480
Wages and salaries	26 100

The freehold property was revalued on 1 September 2020 at \$58 000. The revaluation has not yet been recorded in the books of account.

**REQUIRED**

(a) Prepare the journal entry to record the revaluation of the freehold property on 1 September 2020. A narrative is **not** required.

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..... [3]

**Additional information**

The following information is also available.

- 1 Revenue includes goods sent to a credit customer on 23 August 2021 on a sale or return basis. The directors were uncertain whether any of these goods would be returned. The selling price of the goods was \$6400, and they had been sold at a gross margin of 25%.
- 2 Inventory in P Limited's warehouse at 31 August 2021 was valued at cost, \$18 600.
- 3 Debenture interest had been paid to 30 June 2021.
- 4 Delivery vehicle licences of \$540 had been paid for the year ending 31 December 2021.
- 5 Wages and salaries of \$620 were outstanding at 31 August 2021.
- 6 Wages and salaries are to be charged as follows:

Administrative expenses	25%
Distribution costs	75%

- 7 On 31 August 2021, a delivery vehicle was sold for \$7000. The vehicle had been purchased on 1 September 2018 for \$13 000. No entries for the sale had been made in the books of account and the sale proceeds had not yet been received.
- 8 The freehold property is used only as a distribution warehouse. Its remaining useful life at 1 September 2020 was estimated to be 40 years.
- 9 Depreciation is to be charged as follows:

Non-current asset	Depreciation method
Freehold property	Written off over the remaining useful life
Delivery vehicles	20% per annum reducing balance

A full year's depreciation is charged in the year of purchase, but none in the year of disposal.

**REQUIRED**

- (b) Prepare the income statement for the year ended 31 August 2021. Use the space on the **next page** for your workings.

P Limited  
Income statement for the year ended 31 August 2021

	\$
Revenue	
Cost of sales	
Gross profit	
Administrative expenses	
Distribution costs	
Profit from operations	
Finance costs	
Profit for the year	

**Workings**

Revenue

Cost of sales

Depreciation

Administrative expenses

Distribution costs

Finance costs

[15]

(c) Prepare a statement to show the balance of retained earnings at 31 August 2021 after the preparation of the income statement.

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**Additional information**

The directors wish to reduce the level of trade receivables.

**REQUIRED**

(d) State **two** ways in which the level of trade receivables of a business could be reduced.

1 .....  
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2 .....  
..... [2]

**Additional information**

The directors have plans to expand the business and they are considering two options.

Option 1: Make a rights issue of 80 000 ordinary shares of \$0.50 each at a premium of 25%.

Option 2: Issue 8% debentures (2027–2028) to raise \$50 000.

**REQUIRED**

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

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[Total: 30]

- 2 Shamal maintains a full set of accounting records. He has extracted a trial balance at 30 September 2021 that does not balance and he has opened a suspense account for the difference.

Shamal has now identified the following six errors. There were no other errors.

- 1 A payment of \$169 for motor repairs had been correctly entered in the cash book but had been debited to the motor repairs account as \$196.
- 2 The purchase of new machinery, \$670, had been debited to general expenses.
- 3 Discount allowed of \$175 had been entered correctly in the cash book but had not been posted to the discount allowed account.
- 4 The sales journal was totalled at \$86 961. The total should have been \$86 741.
- 5 A cheque for \$425 received from McCann, a credit customer, had been correctly entered in the cash book but had been debited to the sales ledger control account.
- 6 The total of the discount received column in the cash book, \$490, had been entered twice on the correct side of the discount received account.

### REQUIRED

- (a) Prepare the suspense account at 30 September 2021, clearly identifying the opening balance.

#### Suspense Account

Details	\$	Details	\$

[6]



(b) Complete the table to name the type of error in each of the errors 1, 2 and 3 identified by Shamal.

Error	Type of error
1	
2	
3	

[3]

(c) Explain **two** benefits to a business of preparing a purchases ledger control account.

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[4]

(d) State **two** items that would appear on the credit side of a purchases ledger control account.

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2 .....

[2]

[Total: 15]

- 3 The following information has been extracted from the financial statements of D Limited at 30 June 2020.

	\$
Share capital (ordinary shares of \$0.50 each)	150 000
Share premium	25 000
Retained earnings	28 700

Transactions during the year ended 30 June 2021.

1 August 2020	Made a rights issue of one ordinary share for every five shares held at \$0.70 per share. The issue was fully subscribed.
1 December 2020	Paid a dividend of \$0.02 per share on all shares in issue at that date.
1 March 2021	Made a bonus issue of two ordinary shares for every nine shares held. Reserves were left in the most flexible form.
30 June 2021	Proposed a final dividend of 2%.

The profit for the year ended 30 June 2021 was \$76 520.

### REQUIRED

- (a) Prepare the following ledger accounts.

#### Ordinary share capital

Date	Details	\$	Date	Details	\$

Share premium

Date	Details	\$	Date	Details	\$

Retained earnings

Date	Details	\$	Date	Details	\$

[11]

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

- 1 .....
- .....
- 2 .....
- .....
- [2]

(c) Explain **one** reason why a company might make a bonus issue of shares.

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..... [2]

[Total: 15]

- 4 Hayden manufactures two products, Aye and Bee. The business operates two production departments, Machining and Finishing, and two service departments, Stores and Maintenance.

**REQUIRED**

- (a) Identify **one** possible basis of apportionment that a business could use in respect of:

- (i) rent and rates

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- (ii) machinery depreciation

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- (iii) electricity for machinery.

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[3]

**Additional information**

The following information is available.

	Machining	Finishing
Number of orders from Stores	3 200	1 800
Maintenance call-outs	160	32
Budgeted direct labour hours	6 200	19 800
Budgeted machine hours	38 600	9 400

**REQUIRED**

- (b) Complete the following table to show the apportionment of budgeted overhead costs for the year ended 30 September 2021.

	Total \$	Production departments		Service departments	
		Machining \$	Finishing \$	Stores \$	Maintenance \$
Total apportioned overheads	449 800	188 850	172 850	53 325	34 775
Re-apportion Stores					
Subtotal					
Re-apportion Maintenance					
Total overheads cost					

[4]

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

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**Additional information**

The actual results for the year ended 30 September 2021 were as follows:

	Machining	Finishing
Factory overheads	\$265 800	\$187 420
Direct labour hours	6 350	19 260
Machine hours	36 940	9 810

**REQUIRED**

(d) Calculate the over-absorption or under-absorption of overheads for **each** department for the year ended 30 September 2021.

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**Additional information**

Hayden is considering using one factory-wide overhead absorption rate rather than separate departmental overhead absorption rates.

**REQUIRED**

- (f) Advise Hayden whether or not he should use one factory-wide absorption rate. Justify your answer.

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- (g) Explain **two** effects that the over-absorption of overheads may have on a business.
  - 1 .....
  - 2 .....

[4]

[Total: 30]

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