Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

4121700498

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 2020**

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. Blank pages are indicated.

DC (RCL/GO) 188100/2

[Turn over

1 Anjali is a sole trader. She does not maintain a full set of accounting records.

At 1 October 2019 the assets and liabilities of Anjali were as follows:

Cash at bank	4600 debit
Inventory	14500
Non-current assets (carrying value)	85000
Trade payables	9930
Trade receivables	12850

During the year ended 30 September 2020 the following transactions were recorded.

General expenses paid	11480
Payments to trade payables	50250
Receipts from trade receivables	73850
Rental income received	9000
Returns inwards	2070
Returns outwards	1290

Anjali made drawings of $600 per month throughout the year.
All receipts and payments were processed through the bank account.
Irrecoverable debts of $2300 were written off.

At 30 September 2020 the assets and liabilities were as follows:

Inventory	18000
Non-current assets (carrying value)	72250
Prepaid general expenses	600
Trade payables	11470
Trade receivables	14980

REQUIRED

(a) Calculate the bank balance at 30 September 2020.

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.... [3]

(b) Prepare the income statement for the year ended 30 September 2020. Use the space on the next page for your workings.

Anjali
Income statement for the year ended 30 September 2020

Workings:

[17]

(c) Calculate the following, to **two** decimal places, for the year ended 30 September 2020.

(i) Gross margin

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.... [1]

(ii) Mark-up

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.... [1]

(iii) Profit margin

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.... [1]

(d) **(i)** Explain how a business may increase its gross margin.

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....

.... [2]

(ii) Explain how a business may improve its profit margin.

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....

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.... [2]

(e) State **one** reason why each of the following may be interested in the financial statements of a business.

1 Employees ....

....

2 Suppliers ....

....

3 Government ....

....

[3]

[Total: 30]

2 Khalid runs a business. His non-current assets with a total value of $200 000 consist of a motor vehicle and a machine with a life expectancy of 5 years. He anticipates that the machine will make products at a steady rate during that period.

REQUIRED

(a) State **three** methods of depreciation which may be used by a business.

1 ....

2 ....

3 ....
[3]

(b) Advise Khalid which method of depreciation he should use for **each** asset. Justify your advice.

Motor vehicle ....

....

....

....

....

Machine ....

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....

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.... [6]

(c) State which accounting concept Khalid did **not** apply in each of the following scenarios.

Scenario	Concept
Khalid used the business bank account to pay for a deposit for a family holiday. This was treated as a business expense.	
A stapler for $10 paid by Khalid out of the business bank account was added to the business office equipment account balance.	
Khalid became aware that a customer owing $1500 was bankrupt. He took no action when preparing the financial statements.	

[3]

(d) State the purpose of financial statements.

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.... [3]

[Total: 15]

3 Roberto and Sangeeta have been in partnership for many years sharing profits and losses in the ratio 3 : 2. They decided to dissolve the partnership on 31 August 2020.

Their summarised statement of financial position at that date was as follows:

	$
Assets	
Non-current assets	160 000
Current assets	
Inventory	45 000
Trade receivables	15 000
	60 000
Total assets	220 000
Capital and liabilities	
Capital accounts	
Roberto	110 000
Sangeeta	60 000
	170 000
Current accounts	
Roberto	25 000
Sangeeta	(10 000)
	15 000
Total capital and current accounts	185 000
Current liabilities	
Trade payables	30 000
Bank overdraft	5 000
	35 000
Total capital and liabilities	220 000

The following information is also available.

1 Non-current assets were sold for $175 000.

2 Inventory was sold for $42 000.

3 Trade receivables were settled after allowing a 20% discount.

4 Trade payables were settled after taking a 10% discount.

5 Dissolution expenses of $4000 were paid by cheque.

REQUIRED

(a) Prepare the partnership realisation account.

Partnership realisation account

	$		$

[5]

(b) Prepare the partners' capital accounts on dissolution of the partnership.

Partners' capital accounts

	Roberto $	Sangeeta $		Roberto $	Sangeeta $

[5]

(c) Prepare the bank account on dissolution of the partnership.

Bank account

	$		$

[5]

[Total: 15]

4 Kevin runs a small manufacturing business. He is considering which method of inventory valuation he should use.

REQUIRED

(a) State **two** advantages to a business of using **each** of the following methods of inventory valuation.

(i) First in first out (FIFO)

1 ....

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2 ....

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(ii) Last in first out (LIFO)

1 ....

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2 ....

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(iii) Average cost (AVCO)

1 ....

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2 ....

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[6]

Additional information

Kevin manufactures a single product and he intends to value his closing inventory at selling price which includes a mark-up on cost.

REQUIRED

(b) Explain why Kevin should not value his inventory at this price.

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.... [3]

Additional information

Kevin currently uses marginal costing but is considering changing to absorption costing.

The following budgeted information per unit is available.

	$
Selling price	20
Direct material	6
Direct labour	3

Budgeted production	20 000 units per month
Budgeted fixed overheads	$100 000 per month.

At 1 January there was no inventory held.

The following actual results are available for January and February.

	January	February
Sales (units)	15 000	21 000
Production (units)	18 000	18 000
Fixed overheads	$100 000	$100 000

REQUIRED

(c) Prepare the income statement for **each** of the months of January and February using marginal costing.

Kevin
Marginal cost income statement

	January		February	
	$	$	$	$
....	....	....	....	....
....	....	....	....	....
....	....	....	....	....
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[5]

(d) Prepare the income statement for **each** of the months of January and February using absorption costing.

Kevin
Absorption cost income statement

	January		February	
	$	$	$	$
....	....	....	....	....
....	....	....	....	....
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[6]

(e) Prepare a statement reconciling the marginal cost profit with the absorption cost profit for January.

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.... [3]

(f) Advise Kevin whether or not he should change from marginal costing to absorption costing. Justify your answer.

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.... [7]

[Total: 30]

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