



CANDIDATE
NAME

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CENTRE
NUMBER

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CANDIDATE
NUMBER

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9706/22

February/March 2024

1 hour 45 minutes

No additional materials are needed.

- 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.

- 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. Any blank pages are indicated.

- 1 The following trial balance was extracted from the books of V Limited at 31 December 2023.

	\$	\$
8% debentures (2029)		240 000
Administrative expenses	17 200	
Bank loan		32 000
Bank loan interest	2 600	
Carriage inwards	4 500	
Carriage outwards	8 700	
Cash and cash equivalents		8 200
Distribution costs	30 700	
Dividends paid	37 500	
Furniture and equipment at carrying value, 1 January 2023	956 000	
Inventory at 1 January 2023	47 800	
Property at valuation	980 000	
Purchases	522 000	
Rental income		13 300
Retained earnings		174 000
Returns		5 100
Revenue		997 100
Share capital: 4 000 000 ordinary shares of \$0.25 each		1 000 000
Share premium		215 000
Trade payables		57 800
Trade receivables	47 900	
Wages: office staff	49 300	
Wages: sales staff	38 300	
	2 742 500	2 742 500

The following information is also available.

- 1 At 31 December 2023 inventory was valued at \$49 500.
- 2 Distribution costs include a prepayment of \$6 000.
- 3 At 31 December 2023, rental income of \$3 000 had been received in advance.
- 4 Provision should be made for depreciation of furniture and equipment at 20% per annum using the reducing balance method.

Depreciation charges should be allocated: 60% administrative expenses; 40% distribution costs.
- 5 At 31 December 2023, office wages of \$5 800 were due but unpaid.
- 6 The debentures had been issued on 1 October 2023. The first interest payment is due on 31 March 2024.
- 7 Tax for the year ended 31 December 2023 is estimated to be \$27 900.

- (a) Prepare the statement of profit or loss for the year ended 31 December 2023. Use the space provided on **page 4** to show your workings.

V Limited
Statement of profit or loss for the year ended 31 December 2023

	\$
Revenue	
Cost of sales	
Gross profit	
Other income	
Distribution costs	
Administrative expenses	
Profit from operations	
Finance costs	
Profit before tax	
Tax	
Profit for the year	

Workings:

Cost of sales
Distribution costs
Administrative expenses
Finance costs

[14]

Additional information

During the year ended 31 December 2023 the following transactions **had been** recorded in the books of account.

1 September	A rights issue had been made of one ordinary share for every three ordinary shares currently held. The issue was made at a premium of \$0.05 per share. The rights issue was fully subscribed.
31 December	Property had been revalued and the value reduced by \$60 000.

(b) Complete the statement of changes in equity for the year ended 31 December 2023 on **page 5**.

Statement of changes in equity for the year ended 31 December 2023

	Share capital \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total \$
Balances, 1 January 2023			60 000	174 000	
Balances, 31 December 2023	1 000 000	215 000	-		

Additional information

Option A: Delaying payments to credit suppliers by an extra eight days.

Option B: Switching to a new supplier who is prepared to offer a trade discount if large orders are made.

(d) Advise the directors which option they should choose. Justify your choice by considering the effect on **both** profitability and liquidity.

[7]

[Total: 30]

- 2 Zainab uses the straight-line method of depreciation for business vehicles.

The non-current assets of the business include two vehicles.

Vehicle	Cost \$	Date of purchase
1	26 000	1 January 2021
2	28 200	1 September 2022

Vehicles are depreciated by 20% per annum. Depreciation is calculated on a month-by-month basis in the year of purchase. No depreciation is provided in the year of disposal. The financial year ends on 31 December.

- (a) Prepare the journal entry to record the depreciation charge for the year ended 31 December 2022. A narrative is **not** required.

Journal

		Dr \$	Cr \$

[3]

- (b) Prepare the provision for depreciation – vehicles account for the year ended 31 December 2022.

Provision for depreciation – vehicles

		\$			\$

[3]

Additional information

On 15 February 2023 Vehicle 1 was disposed of at a profit of \$4200 and the proceeds were paid into the business's bank account.

(c) Prepare the vehicle disposal account.

Vehicle disposal

		\$			\$

[4]

(d) State **one** reason why it may be better to use the reducing balance method of depreciation for vehicles.

.....
 [1]

(e) Explain **two** accounting concepts which apply to depreciation.

1

 2

[4]

[Total: 15]

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- 3 Rahul owns a retail business. He has not maintained full accounting records. He is able to supply the following information about the financial year ended 31 January 2024.

1 Valuation of inventories

1 February 2023	31 January 2024
\$21 400	\$19 800

- 2 Rahul sells goods so as to achieve a gross profit margin of 40%.
- 3 The usual rate of inventory turnover is 9 times a year.

(a) Calculate the revenue for the year ended 31 January 2024.

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..... [4]

Additional information

Rahul has not kept a record of his cash drawings during the year ended 31 January 2024. However, the following information is available concerning cash transactions.

- 1 On 1 February 2023 there was cash in hand of \$840.
- 2 Cash sales accounted for 70% of all sales.
- 3 Bank statements recorded total cash takings of \$187 300 for the year ended 31 January 2024. However, at 31 January 2024 there were cash takings banked but not yet credited of \$3800.
- 4 Cash was used to pay a part-time assistant's wages of \$320 per week. The assistant worked for 44 weeks during the year ended 31 January 2024.
- 5 At 31 January 2024 cash in hand was \$1830.

(b) Calculate Rahul's cash drawings for the year ended 31 January 2024.

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Additional information

Rahul's accountant has suggested he should start keeping full accounting records and that he should use an accounting software package.

(c) State **two** ways in which Rahul will benefit from the accountant's suggestions.

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2

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..... [2]

(d) Explain **two** possible reasons for not accepting the accountant's suggestions.

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- 2
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[4]

[Total: 15]

- 4** K Limited uses absorption costing at one of its factories. The product manufactured in this factory goes through two production departments: cutting department and finishing department.

The following budgeted information was available for the year ended 31 December 2023.

	Cutting department	Finishing department
Overhead absorption rate	\$3.62	\$2.34
Labour hours	17 400	8 400
Machine hours	22 900	5 200

A customer placed an order for 250 units in November 2023. The following budgeted information is available about the production of one unit.

Per unit	
Direct materials	\$17.28
Direct labour	
Cutting department	1.2 hours at \$11.50 per hour
Finishing department	3.1 hours at \$11.50 per hour
Machine hours	
Cutting department	2.2 hours
Finishing department	1.4 hours

Selling prices are set to achieve a profit margin of 40%.

- (a)** Prepare a statement to show the total selling price for the customer's order.

[5]

Additional information

Actual production hours for the year ended 31 December 2023 were as follows:

	Cutting department	Finishing department
Labour hours	16 200	7 900
Machine hours	24 300	5 800

Total actual overheads were the same as budgeted overheads.

- (b) Calculate the over-absorption or under-absorption of overheads for **each** production department for the year ended 31 December 2023.

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..... [4]

Additional information

K Limited uses marginal costing at **another** factory where a single type of product is made.

The following budgeted information is available.

	\$ per unit
Selling price	42
Direct materials	12
Direct labour (1.5 hours per unit)	18
Other variable costs	3

Fixed costs per month are \$38 500.

Currently the factory is producing 9920 units per month.

- (c) Calculate both the **total** monthly contribution and the **total** monthly profit currently being made in this factory.

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..... [2]

Additional information

The directors hope to increase demand by changing the selling price. They are considering the following two options.

Option A

- 1 Reduce the selling price per unit by 5%.
- 2 Increase production by 4000 units on the current production level.
- 3 A commission of \$0.25 per unit will be paid.
- 4 Overtime will be required on all units produced over 12 400 units and is paid at a premium of 25%.
- 5 Cancel the current advertising campaign costing \$8000 a month.

Option B

- 1 Reduce the selling price per unit to \$41.
- 2 Increase production by 10% on the current production level.
- 3 Invest in more up-to-date machinery at a cost of \$180 000.
- 4 It is proposed to partly finance the purchase of new machinery by borrowing \$150 000 at 8% per annum interest.
- 5 Machinery is depreciated by 25% per annum on cost.
- 6 As a result of improvements to machinery, the time each worker takes to produce one unit will be reduced by 8% and a higher quality product can be made.

- (d) Prepare marginal costing statements to show the monthly forecast profit, rounded to the nearest dollar, for **each** option.

(i) Option A

[6]

(ii) Option B

[6]

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

[7]

[Total: 30]

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