



# Cambridge International AS & A Level

CANDIDATE NAME

Adeel Paperwala

19/04/2026

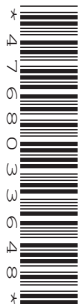


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## ACCOUNTING

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.**

**NOT R**

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

	\$
10% bank loan (repayable 2028) <i>NCL</i>	8400 L
furniture and equipment at carrying value <i>NBV</i>	20800 A
inventory	8792 A
other payable: general expenses <i>owing</i>	183 L
other receivable: rent <i>Prepaid</i>	320 A
trade payables	4914 L

$8400 \times 10\% = \$840 \text{ exp}$   
 630 Paid      210 owing

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:

	\$
<u>receipts</u>	
cash takings <i>Sales Deposit in Bank</i>	79320
proceeds from disposal of equipment <i>NCA</i>	945 - 800 = 145 <i>Gain on Disposal</i>
	80265
<u>payments</u>	
additional equipment <i>NCA</i>	3200
bank loan interest	630
carriage inwards <i>+ Purchases</i>	148 ✓
drawings <i>→ Capital</i>	14880
general expenses	4410
rent	8380
trade payables <i>Payments</i>	35724 + 680 = 36404
	67372 + 680

- 2 There were unpresented 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. *D.R*

Unpresented cheques means cheques issued by business for payments but not yet presented in bank. These amount are not included on bank statement.

$Rent = 8380 + 320 + 510 = 9210$

$General\ expense = 4410 - 183 - 770 = 3457$

General exp	
B/f [P] -	B/d [owing] 183
Bank 4410	<b>Profit and loss 3457</b>
c/d [owing] -	c/d [P] 770

Expense - Rent	
B/d [P] 320	B/d [owing] -
Bank 8380	<b>Profit and loss 9210</b>
c/d [owing] 510	c/d [P] -





4 Cash takings were banked after making the following payments:

	\$
drawings	2850
purchases of goods for resale	3172
wages	13860

Cash	
B/f	-
Cash Sales	99262
Bank	79320
Drawings	2850
Purchases	3172
Wages	13860
c/d	-

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

6 At 31 December 2025: closing Balances

- ✓ furniture and equipment was valued at \$19500
- ✓ rent of \$510 was owing +
- ✓ general expenses of \$770 were prepaid (↔)
- ✓ the balance of trade payables was \$5520
- ✓ inventory was valued at \$11434. closing

Equipment - NBV	
B/d	20800
Additions	3200
Disposal	800
Dep	3700
c/d	19500

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

Trade Payables	
Bank	36404
Discount Received	390
Balance c/d	5520
	42314
Balance b/d	4914
Credit Purchases	37400
	42314

Total Purchases = Credit Purchases + Cash Purchases

40572 = 37400 + 3172

[5]



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(b) Prepare the statement of profit or loss for the year ended 31 December 2025. Use the space provided to show your workings.

Houssam  
Statement of profit or loss for the year ended 31 December 2025

	\$	\$
Revenue		99202
<u>Less: Cost of Sales</u>		
OP - Inv	8792	
Add: Purchases	40572	
Add: Carriage inwards	148	
Less: Closing Inventory	<u>(11434)</u>	<u>(39078)</u>
Gross Profit		61124
<u>Add: Other Income and Gains</u>		
Gain on Disposal	145	
Discount Received	<u>390</u>	<u>535</u>
		61659
<u>Less: Expenses</u>		
Loan Interest [630 + 210] OR [8400 x 10%]	840	
General expenses [working]	3457	
Rent	9210	
Wages	13860	
Depreciation [working]	<u>3700</u>	<u>(31067)</u>
<b>Profit</b>		<u>30592</u>

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Workings:

revenue	\$99202
cost of sales	$8792 + 40572 + 148 - 11434 = 38078$
depreciation	See working on Page 3
general expenses	Page 2
rent	Page 2

[14]



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

As per business entity concept owner and business are separate entities therefore drawings are adjusted (deducted) from capital and are not shown as an expense.

[2]

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

1 No knowledge, skills or understanding of accounting and double entry.

2 Non availability of qualified accountant or book keeper.

3 To save cost and time.

[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.

Advantages:

- 1) Speed and efficiency
- 2) Accuracy
- 3) Better record-keeping so large volume data can be stored.
- 4) better control over business

Disadvantages:

- 1) initial cost is higher to setup the system
- 2) Training of employees
- 3) security risk (hack and virus)
- 4) system failure such as technical issues and power failure

Advise...

Note: don't write in points, write in paragraph but cover all points.

[7]

[Total: 30]



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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

2023 + 2024

2024 [6m]

2024 [5m]

87000

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.

NBV

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

	A		B		C
Cost	30000	Cost	24000	Cost	33000
2023 [30000 x 20%]	(6000)		-		
2024	(6000)	[24000 x 20% x 6/12]	(2400)	[33000 x 20% x 5/12]	(2750)
NBV	18000	+	21600	+	30250
	= <span style="border: 1px solid black; padding: 2px;">\$69850</span> [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.

Bank 18200  
exchange Allowance? 16800

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

Vehicles at cost

date 2025	details	\$	date 2025	details	\$
1 Jan	Balance b/d	87000	1 Sept	DISPOSAL	30000
1 Sept	Bank	18200			
1 Sept	DISPOSAL <span style="border: 1px solid black; padding: 2px;">exchange Allowance</span>	16800	31 Dec	Balance c/d	92000
		122000			122000
2026 1 Jan	Balance b/d	92000			

[4]





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

\$

Cost	30000	
Accumulated Depreciation	<u>(12000)</u>	
Carrying value	18000	
Exchange Allowance	<u>16800</u>	
Loss on Disposal	<u>1200</u>	[3]

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

concept 1      Matching and accrual concept

explanation      The reason for charging depreciation is to spread the cost of non current asset over its useful life so that revenue generated from use of asset can be matched against depreciation charged during the year.

concept 2      Prudence

explanation      Charging depreciation ensures that profit and the value of non current assets are not overstated.

[4]

[Total: 15]



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

equity <i>Opening Balances</i>	\$
issued capital: ordinary shares of \$0.25 each	660 000 $\div$ \$0.25 = 2640000 Shares
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. = $\downarrow$ 140 000
1 July <i>2640000 x 3/5 = 1584000 shares</i>	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. <i>x 0.25 = \$ 396000</i>
1 September <i>2640000 + 1584000 = 4224000</i>	A dividend of \$0.02 per share was paid on all shares in issue at this date. <i>4224000 x 0.02 = 84480</i>
1 December <i>4224000 x 1/3 = 1408000</i>	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. <i>0.25 P.V      0.1 Premium</i>

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
<i>1 April</i> Property Revaluation	-	-	(110 000)	(30 000)	(140 000)
<i>1 Sept</i> Bonus Issue	396 000	(175 000)	-	(21 000)	-
<i>1 Sept</i> Dividend Paid	-	-	-	(84 480)	(84 480)
<i>1 Dec</i> Right Issue	<i>1408000 x 0.25</i> 352 000	<i>1408000 x 0.10</i> 140 800	-	-	492 800
<i>31 Dec</i> Profit For the Year	-	-	-	92 500	92 500
at 31 December 2025	1 408 000	140 800	-	124 000	1 672 800

[9]





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

1 The ownership and control will stay with existing shareholders which means ownership will not be diluted as right issue means issue of shares to existing shareholders.

2 The Cost of issuing shares is low so it is a cheaper source of finance. In right issue cost of underwriting of shares and prospectus issuing is not required.

[4]

**Additional information**

The directors are considering creating a general reserve.

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

Can be used to pay dividends in future years

Can be used for future uncertainties

[2]

[Total: 15]



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

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

(i) **marginal cost**

It is the cost of producing one extra unit of output. Variable cost is called marginal cost.

[1]

(ii) stepped costs.

The fixed cost which remains constant up to certain level of activity and then increases by same proportion if output level exceed that limit.

[1]

**Additional information**

The following information is available about current production.

	per unit
selling price	\$84 - 72 = 12
direct materials ✓	3 kg at \$8 per kg = 24
direct labour	4 hours at \$12 per hour = 48

} 72

Units made and sold per month: 3600

Fixed costs per month: \$28 260

(b) Calculate the current profit per month.

	\$
Total Contribution [ $\$12 \times 3600$ ]	43200
less: Total Fixed Cost	<u>(28260)</u>
Profit	<u>14940</u>
	[3]





### Additional information

The directors have made the following decisions:

- Increase the labour rate per hour by 5%.  $12 + 0.6 = 12.6$
- Set a target profit per month of \$18 000.
- Maintain current levels of production and sales. 3600 units

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.

$$\frac{\text{Target Profit} + \text{Fixed Cost}}{\text{Revised Contribution Per unit}} = \text{No. of units}$$

$$\frac{18000 + 28260}{\text{Revised Contribution}}$$

$$\text{Revised Contribution Per unit} = \$12.85$$

$$\text{New selling Price } 87.25 \text{ ( ? ) } [12.85 + 74.4]$$

(i) Variable Cost [5]

D-M [3x8]	24	
D-L [4hrs x 12.6]	<u>50.4</u>	<u>74.4</u>
Contribution Per unit		<u>12.85</u>

$$\text{Increase} = 87.25 - 84 = \boxed{\$ 3.25}$$





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

$28 - 21 = \$7$

Units made and sold per month: 8000

Fixed costs per month: \$28 700

The factory is currently operating at full capacity. **8000 units**

$9 + 4.5 = \$13.5$

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

option A

$\$13.5 \times 20\% = 2.7$   $[13.5 - 2.7] = \$10.8$

- 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. **800 units**  
In overtime conditions, direct labour is paid a premium of 40%.

$8000 + 800 = 8800 \text{ units}$

$12 + 4.8 = \$16.8$

option B

- Order all direct materials from a new supplier.
- Maintain current levels of production and sales. **8000 units**
- This supplier will also charge the increased cost per unit but is prepared to offer a trade discount of 30% for making bulk orders.

$\$13.5 - 4.05 = 9.45$



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

(i) option A

	Normal Capacity	Overtime	Total
	8000 units	800 units	
	\$	\$	\$
Selling Price	28	28	
(-) Variable Cost			
DM	(10.8)	(10.8)	
DL	(12)	(16.8)	
Contribution Per unit	5.2	0.4	
x No. of units	x 8000	x 800	
Total Contribution	41600	320	41920
(-) less: Fixed Cost [28700 + 4000]			(32700)
Profit			<u>9220</u> [7]

(ii) option B

	\$
Selling Price	28
D.M	(9.45)
D.L	(12)
Contribution Per unit	6.55
x No. of units	x 8000
Total Contribution	52400
less: Fixed Cost	(28700)
Profit	<u>23700</u> [6]

