



Cambridge International AS & A Level

CANDIDATE
NAME

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CENTRE
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ACCOUNTING

9706/21

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.

- 1 Ismail opened a retail business on 1 January 2019 with the following assets and liabilities.

| | \$ | |
|----------------------------|--------|-------|
| Bank | 7 500 | Debit |
| Non-current assets | 18 500 | |
| Bank loan (repayable 2022) | 4 200 | |

Ismail prepared a draft income statement for the year ended 31 December 2019. However, this contained errors.

Draft income statement for the year ended 31 December 2019

| | \$ | \$ |
|------------------------|------------|------------------|
| Revenue | | 274 500 |
| Cost of sales | | <u>(182 360)</u> |
| | | 92 140 |
| Add discounts received | | <u>820</u> |
| Gross profit | | 92 960 |
| Add bank loan | | <u>4 200</u> |
| | | 97 160 |
| Less expenses | | |
| Carriage inwards | 1 020 | |
| Drawings | 18 740 | |
| General expenses | 22 280 | |
| Insurance | 1 730 | |
| Rent | 20 250 | |
| Loan interest | <u>210</u> | |
| | | <u>(64 230)</u> |
| Profit for the year | | <u>32 930</u> |

The following had not been accounted for.

- Ismail had taken goods for his own use. These goods cost \$420 and had a selling price of \$630.
- Carriage inwards included capital expenditure of \$400 on non-current assets which had been paid on 18 January 2019.
- Depreciation on all non-current assets is to be provided at 20% per annum on cost. A full year's depreciation is charged in the year of purchase.
- The amount shown for insurance included \$720 for the six-month period ending 30 April 2020.
- At 31 December 2019 trade receivables totalled \$14 800. A customer who owed \$600 had been declared bankrupt. Ismail decided to write off this account. He also decided to create a provision for doubtful debts of 5% of trade receivables at the year end.
- Interest on the bank loan is charged at 10% per annum.

REQUIRED

(a) Prepare the corrected income statement for the year ended 31 December 2019.

Ismail
Income statement for the year ended 31 December 2019

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Workings:

[15]

(b) Calculate the balance on Ismail's capital account at 31 December 2019.

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Additional information

Ismail would like to expand his business. He will need additional finance of \$25000. He is considering two options to raise this amount:

option 1: apply for a bank loan

option 2: form a partnership with Seema, a friend. Seema would expect profits and losses to be shared equally.

REQUIRED

(c) Advise Ismail which of these options he should choose. Justify your answer.

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Additional information

Ismail sees benefits in keeping a full set of accounting records.

REQUIRED

(d) State **four** benefits to a business of keeping a full set of accounting records.

1
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..... [4]

[Total: 30]
[Turn over

2 Noor, a sole trader, prepares bank reconciliation statements at the end of each month.

REQUIRED

(a) State **four** benefits to a business of preparing a bank reconciliation statement.

- 1
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- 2
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- 3
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- 4
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- [4]

(b) State **two** differences between a bank standing order and a direct debit.

- 1
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-
- 2
-
-
- [2]

Additional information

On 31 October 2019 Noor received the following bank statement for her business account.

| Date | Details | Dr \$ | Cr \$ | Balance \$ |
|--------|------------------------|----------|----------|---------------|
| 1 Oct | Balance b/d | | | 292.22 Cr |
| 3 Oct | Credit | | 927.40 | 1 219.62 Cr |
| 6 Oct | Direct debit: P Ltd | 334.80 | | 884.82 Cr |
| 7 Oct | Cheque 626344 | 118.48 | | 766.34 Cr |
| 9 Oct | Cheque 626346 | 723.21 | | 43.13 Cr |
| 18 Oct | Credit transfer: Tahir | | 184.95 | 228.08 Cr |
| 21 Oct | Bank charges | 59.60 | | 168.48 Cr |
| 22 Oct | Direct debit: Ayesha | 172.80 | | 4.32 Dr |
| 24 Oct | Credit | | 841.67 | 837.35 Cr |
| 27 Oct | Cheque 626347 | 1 206.22 | | 368.87 Dr |
| 29 Oct | Credit transfer: H Ltd | | 229.48 | 139.39 Dr |

Noor's cash book (bank columns) for October 2019 was as follows.

| Cash Book (bank columns) | | | |
|--------------------------|-------------------------|-----------------------|----------------|
| | | \$ | \$ |
| Oct | | | |
| 1 | Balance b/d | 292.22 | |
| 1 | Sales | 927.40 | |
| 22 | Tahir (credit transfer) | 184.95 | |
| 23 | Sales | 841.67 | |
| 29 | Sales | 773.25 | |
| 31 | Balance c/d | 625.48 | |
| | | <u>3644.97</u> | |
| Oct | 2 | Z Ltd (cheque 626344) | 118.48 |
| | 4 | J Ltd (cheque 626345) | 276.93 |
| | 5 | Ayan (cheque 626346) | 723.21 |
| | 6 | P Ltd (direct debit) | 334.80 |
| | 22 | Huma (cheque 626347) | 1206.22 |
| | 26 | Usman (cheque 626348) | 985.33 |
| | | | <u>3644.97</u> |
| Nov | 1 | Balance b/d | 625.48 |

REQUIRED

(c) Prepare Noor's updated cash book.

| Cash Book (bank columns) | | | |
|--------------------------|--|-------------|--------|
| | | \$ | \$ |
| | | | |
| | | Balance b/d | 625.48 |
| | | | |
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[4]

(d) Prepare a bank reconciliation statement at 31 October 2019.

Start with the balance per the bank statement.

Bank reconciliation statement at 31 October 2019

| | \$ |
|----------------------------|----|
| Balance per bank statement | |
| | |
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[5]

[Total: 15]

[Turn over

3 M Limited was formed five years ago.

On 1 January 2019 the company's statement of financial position included the following details.

| | |
|--|-------------|
| Equity | \$000 |
| Share capital – ordinary shares of \$0.25 each | 1200 |
| Share premium | 480 |
| Retained earnings | <u>295</u> |
| | <u>1975</u> |

On 1 July 2019 shareholders were paid a dividend of \$0.05 per share.

REQUIRED

(a) Calculate the total dividend paid.

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..... [2]

Additional information

On 1 September 2019 the directors made a rights issue of two ordinary shares for every three shares held at a price of \$0.40 per share. The issue was fully subscribed.

REQUIRED

(b) Describe **one** way in which a shareholder can benefit from taking up a rights issue.

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..... [2]

(c) Calculate the amount raised by the rights issue.

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..... [2]

Additional information

The company made a profit for the year ended 31 December 2019 of \$324 000.

REQUIRED

(d) Prepare the statement of changes in equity for the year ended 31 December 2019.

M Limited
Statement of changes in equity for the year ended 31 December 2019

| | Share capital \$000 | Share premium \$000 | Retained earnings \$000 | Total \$000 |
|--|------------------------|------------------------|----------------------------|----------------|
| | | | | |
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[5]

(e) Describe **two** factors directors should take into account when deciding on a dividend to be paid to the shareholders.

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[4]

[Total: 15]

4 Y Limited is a furniture manufacturer. One of the company's factories operates a system of absorption costing.

REQUIRED

(a) State **two** limitations of absorption costing.

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2

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[2]

Additional information

The factory makes kitchen tables.

There are two production departments: cutting and assembly.

The following forecast information is available for the year:

| | Cutting department | Assembly department |
|---------------------|--------------------|---------------------|
| Overheads | \$68 400 | \$49 200 |
| Total labour hours | 13 720 | 15 820 |
| Total machine hours | 24 810 | 7 290 |

REQUIRED

(b) Calculate, to **two** decimal places, appropriate overhead absorption rates for **each** department.

Cutting department

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Assembly department

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[2]

Additional information

Each kitchen table requires the following.

| | |
|---------------------|-------------------------|
| Materials | 4.2 kg at \$4.90 per kg |
| Labour hours: | |
| cutting department | 3.8 hours |
| assembly department | 2.2 hours |
| Machine hours: | |
| cutting department | 2.1 hours |
| assembly department | 1.3 hours |

All direct labour is paid at the rate of \$10.50 per hour.

The selling price of a table is calculated to achieve a gross margin of 40%.

REQUIRED

(c) Calculate the selling price of a kitchen table.

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Additional information

At the end of the year on 31 December 2019 it was discovered that overheads had been over absorbed.

REQUIRED

(d) State **two** reasons why overheads may be over absorbed in a business.

- 1
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- 2
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- [2]

Additional information

At another factory the company manufactures bookcases. The following information is available.

| | |
|----------------------------|------------|
| Selling price per unit | \$55 |
| Materials per unit | \$10 |
| Direct labour per unit | \$21 |
| Fixed costs per month | \$54 000 |
| Factory capacity per month | 3800 units |

Recently demand for the product has fallen due to increased competition and the target profit of \$12500 per month has not been met.

The directors are considering the following options.

Option A

- 1 Reduce the selling price of each bookcase by \$3 per unit.
- 2 Introduce a sales commission of 5% of selling price.
- 3 It is expected that demand will be 3800 units.

Option B

- 1 Change the design to improve quality resulting in an increase of 20% in the material cost per unit.
- 2 Labour hours per unit will increase by 10%.
- 3 The revised selling price of each bookcase will be \$59.
- 4 Start an advertising campaign at a cost of \$24 000 per annum.
- 5 It is expected that demand will be 3040 units.

REQUIRED

(e) Calculate the forecast profit per month for:

(i) Option A

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[11]

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