Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

2954941614

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 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 **20** pages. Blank pages are indicated.

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1 Hamza and Noor are in partnership. They own a service business.

The following information has been extracted from the partnership's books of account for the year ended 31 December 2019.

	$
Administrative expenses	18 270
Equipment at 1 January 2019	
Cost	11 000
Provision for depreciation	3 300
Loan account (Hamza)	10 000
Motor vehicle at 1 January 2019	
Cost	20 000
Provision for depreciation	7 200
Revenue	45 400
Wages of assistant	15 540

The following information is also available.

1 Administrative expenses include $1800 insurance for the three months ended 29 February 2020.

2 The assistant works a 5-day week and is paid a weekly wage of $350. At 31 December 2019 three days' wages were due but unpaid.

3 Hamza's loan was provided on 1 April 2019. He is entitled to interest of 8% per annum. Loan interest has not yet been paid to Hamza.

4 The depreciation policy is:

Equipment	15% per annum	straight-line method
Motor vehicle	20% per annum	reducing balance method
A full year's depreciation is charged in the year of purchase but none in the year of disposal.		

5 An item of equipment was sold for $480 on 3 August 2019. This equipment had been purchased on 1 January 2017 for $2000.

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REQUIRED

(a) State how profits and losses are shared in a partnership where there is no agreement.

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..... [1]

(b) Explain **two** reasons why you would recommend partners to have a written agreement, other than stating a ratio for sharing profits and losses.

1 .....

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2 .....

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[4]

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

Hamza and Noor
Income Statement for the year ended 31 December 2019

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Workings:

[11]

Additional information

Hamza and Noor have an agreement about sharing profits and losses. Their agreement is as follows.

1 Noor is to be given a salary of $11 000.

2 Partners are allowed to have drawings of $14 000 per annum. Interest of 10% is charged on any drawings in excess of this amount.

3 Remaining profits and losses are to be shared in the ratio Hamza : Noor, 3 : 2.

The following balances were available.

	$	
Current account balances at 1 January 2019		
Hamza	1 290	Debit
Noor	4 350	Credit
Drawings for the year ended 31 December 2019		
Hamza	16 900	
Noor	13 200	

REQUIRED

(d) Prepare the appropriation account for the year ended 31 December 2019.

Hamza and Noor
Appropriation account for the year ended 31 December 2019

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..... [4]

(e) Calculate the balance of Hamza's current account at 31 December 2019.

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Additional information

Hamza and Noor have been considering expanding their business which will require additional finance of $90 000. In order to finance the expansion they are considering two options.

Option 1: admit a new partner
Option 2: apply for a bank loan

REQUIRED

(f) Advise which option the partners should choose. Justify your advice.

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..... [5]

[Total: 30]

2 Ayesha has provided the following extracts from her business's financial statements.

Extract from the Income Statement for the year ended 31 December 2019

	$	$
Revenue		145 500
Opening inventory	11 440	
Purchases	120 120	
	131 560	
Closing inventory	14 560	
Cost of sales		117 000
Gross profit		28 500

Extract from the Statement of Financial Position at 31 December 2019

	$
Current assets	
Inventory	14 560
Trade receivables	9 300
Cash and cash equivalents	4 240
	28 100
Current liabilities	
Bank overdraft	8 000
Trade payables	10 400
	18 400

All purchases are on credit. Two-thirds of all sales are on a credit basis.

REQUIRED

(a) Calculate the following ratios. State the formula used.

(i) Trade payables turnover (in days)

Formula .....

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Calculation .....

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(ii) Trade receivables turnover (in days)

Formula .....

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Calculation .....

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(iii) Current ratio (to **two** decimal places)

Formula .....

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Calculation .....

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[6]

Additional information

Ayesha is concerned about her business's liquidity. She has provided the following ratios based on the year ended 31 December 2018.

Trade payables turnover	34 days
Trade receivables turnover	32 days
Current ratio	1.90 : 1

(b) Analyse the trend in Ayesha's business's liquidity.

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(c) State **two** factors that should be considered when choosing businesses with which to compare a business.

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2 .....

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[2]

[Total: 15]

3 Jason is responsible for preparing his business's accounting records. He has discovered some errors in this year's accounts.

REQUIRED

(a) State **two** types of error which do **not** affect the agreement of the totals of a trial balance.

1 .....

2 .....

[2]

Additional information

When Jason prepared a trial balance on 30 September 2019 the totals did not agree. The total of debit entries was greater than the total of credit entries by $1140. A suspense account was opened for the difference. Subsequently the following errors were found.

1 The total of the sales returns journal was undercast by $90.

2 The owner had withdrawn inventory valued at cost, $870. The only entry made was to debit the drawings account.

3 The total of the discount received column in the cash book, $180, had been debited to the discounts allowed account.

There were no other errors.

REQUIRED

(b) Prepare entries in the general journal to correct these errors. Narratives are **not** required.

General Journal

		Dr	Cr
		$	$
1			
2			
3			

[5]

(c) Prepare the suspense account.

Suspense Account

	$		$

[4]

Additional information

The business's draft profit for the year ended 30 September 2019 was $68 440 before taking account of the errors.

REQUIRED

(d) Calculate the corrected profit for the year ended 30 September 2019.

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..... [4]

[Total: 15]

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4 G Limited manufactures cakes for celebrations. The company uses absorption costing.

REQUIRED

(a) Explain **three** benefits to a business of using absorption costing.

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[6]

Additional information

There are two production departments: baking and decoration.
There are two service departments: stores and maintenance.

Some overheads have already been allocated. The following forecast information is available for the year ending 31 December 2020.

Budgeted overheads to be apportioned

	$
Machinery depreciation	33 600
Power	45 500
Lighting and heating	18 000

	Baking department	Decoration department	Stores department	Maintenance department
Floor space (m^2)	4 100	2 300	600	200
Kilowatt hours	22 000	9 000	1 000	3 000
Machinery (net book value) ($)	33 000	10 000	4 000	9 000
Number of employees	14	29	4	5
Issues from stores	64%	24%		12%
Budgeted maintenance hours	2 500	1 800		
Budgeted machine hours	86 400	37 600		
Budgeted labour hours	26 300	51 000		

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REQUIRED

(b) Complete the table to show the apportionment of overheads and the reapportionment of the service department overheads using suitable bases.

	Total	Baking department	Decoration department	Stores department	Maintenance department
	$	$	$	$	$
Budgeted overheads already allocated	57 620	38 530	14 150	2 800	2 140
Machinery depreciation	33 600				
Power	45 500				
Lighting and heating	18 000				
Total overheads	154 720				
Reapportionment of first service department overheads					
Subtotal					
Reapportionment of second service department overheads					
Total overheads					

[7]

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

Baking department

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Decoration department

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[4]

(d) State **two** possible reasons why overheads may be under absorbed.

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[2]

Additional information

D Limited, a competitor of G Limited, makes a single product. The factory has the capacity to make 850 units per month. Overtime working is not available at this factory.

The following information is available for **each unit** of production and is based on operating at full capacity.

	$
Selling price	49
Direct labour	16
Direct materials	9
Fixed costs	12

In April 2020 the factory was planned to operate at 80% capacity.

The directors of D Limited have received an offer from Wendy to supply 280 units at $45 per unit. Wendy stated that the offer would depend on the entire order of 280 units being supplied.

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REQUIRED

(e) Calculate the profit for the month of April if the offer from Wendy is accepted.

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(f) Advise the directors whether or not they should accept the offer from Wendy. Justify your answer.

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[Total: 30]

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