Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

7590120023

ACCOUNTING **9706/21**

Paper 2 Fundamentals of Accounting **May/June 2024**

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 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. Any blank pages are indicated.

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1 Haroon and Rakesh are in partnership. They provide cleaning services for local businesses. They started their business on 1 January 2023 when the partners introduced the following assets.

	Haroon	Rakesh
	$	$
Cash at bank	4000	2000
Furniture and equipment		14000
Motor vehicle	16000	

The partners have not maintained full accounting records. However, they provided the following information for the year ended 31 December 2023.

1 Bank statements included the following receipts.

	$
Cash takings	9410
Receipts from credit customers	60230

2 Amounts received from credit customers were after deducting cash discounts of 5%.

3 At 31 December 2023, credit customers owed $5580.

4 Before banking cash takings, the partners withdrew the following amounts **each** month for personal use.

	$
Haroon	1200
Rakesh	750

5 The business does not keep any cash in hand.

(a) Calculate the total revenue for the year ended 31 December 2023.

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Additional information

1 Bank statements recorded the following payments for the year ended 31 December 2023.

	$
Cleaning materials	11 420
Rent of premises	8 960
Electricity charges	3 450
Accountant's fees	3 800
Staff wages	29 870
Vehicle running costs	1 480

2 On 1 July 2023, the partners disposed of their motor vehicle for cash, $11 700, which was banked immediately. On this date Rakesh transferred his privately owned motor vehicle, valued at $15 000, into the partnership.

3 Non-current assets are to be depreciated by 20% per annum using the straight-line method. Depreciation is provided on a month-by-month basis and is applied in the year of acquisition and the year of disposal.

4 Rent of premises included a payment of $2460 for the three months ended 29 February 2024.

5 At 31 December 2023, there was an unpresented cheque for $430 for electricity charges.

6 At 31 December 2023, there was an inventory of unused cleaning materials valued at $290.

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(b) Prepare the statement of profit or loss for the year ended 31 December 2023.

Haroon and Rakesh
Statement of profit or loss for the year ended 31 December 2023

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Workings:

[10]

(c) Prepare an extract from the statement of financial position at 31 December 2023 to show the current assets section **only**.

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Current assets

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Workings:

[4]

Additional information

Partnership current accounts are not maintained.

Interest on capital has been agreed at:

	$
Haroon	2000
Rakesh	2350

Haroon is entitled to an annual salary of $5000.

Profits and losses are to be shared in the ratio Haroon three-fifths : Rakesh two-fifths.

(d) Calculate the balance on Rakesh's capital account at 31 December 2023.

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Additional information

The partners have considered maintaining a full accounting system using an accounting software package.

(e) Advise the partners whether or not they should maintain a full accounting system using an accounting software package. Justify your answer.

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[Total: 30]

2 Sana maintains full accounting records. She has prepared a trial balance, but the totals do not agree.

(a) State **two** benefits of preparing a trial balance.

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2 .....

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[2]

Additional information

Sana discovered some errors which did **not** affect the agreement of the trial balance totals.

Type of error	Error
Omission	A dishonoured cheque for $80 received from Aryan Stores.
Commission	An entry was made in the account of K Limited for goods returned to JK Limited, $110.
Complete reversal	Goods taken for own use, cost $260.
Compensating	The total of the discounts allowed column in the cash book, $320, was **not** posted to the general ledger. The total of one of the returns journals was also **not** posted to the general ledger.

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

Journal

	Debit $	Credit $

[8]

(c) State what is meant by an error of principle. Support your answer with **one** example.

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(d) Explain, with reference to an accounting concept, why Sana needs to make an entry for goods taken for own use.

Accounting concept .....

Explanation .....

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[3]

[Total: 15]

3 J Limited's financial year ended on 31 March 2024.

The following information is available.

1

	$
At 1 April 2023	
Retained earnings	98 000
At 31 March 2024	
Issued share capital: ordinary shares of $0.25 each	1 000 000
Share premium	360 000

2 On 1 August 2023 the directors made a rights issue of two ordinary shares for every three ordinary shares held at that date. The shares were issued at a premium of $0.10 per share. The rights issue was fully subscribed.

3 On 1 October 2023 the directors paid an interim dividend of $0.02 per share on all shares in issue at that date.

4 On 31 March 2024 the directors revalued property at $390 000. Property had previously been revalued at $450 000 in 2020.

5 The profit for the year ended 31 March 2024 was $37 000.

(a) Complete, on **page 11**, the statement of changes in equity for the year ended 31 March 2024.

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J Limited
Statement of changes in equity for the year ended 31 March 2024

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
Balances, 1 April 2023			45 000	98 000	
Balances, 31 March 2024	1 000 000	360 000			

Workings:

[8]

Additional information

The directors are considering raising additional finance. They believe investors will prefer to invest in debentures rather than in ordinary shares.

(b) Explain **two** reasons why investors may prefer to invest in debentures rather than in ordinary shares.

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[4]

(c) State **three** uses of a share premium account.

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[3]

[Total: 15]

4 K Limited is a manufacturing company which has recently changed from using absorption costing to using marginal costing.

(a) Explain **two** reasons why a manufacturing company might change from using absorption costing to using marginal costing.

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[4]

Additional information

At one of K Limited's factories a single type of product is manufactured. This month's marginal cost statement is as follows:

Marginal cost statement

	$
Sales revenue	660 000
Variable costs	(462 000)
Contribution	198 000
Fixed costs	(95 000)
Profit	103 000

(b) Calculate the contribution to sales ratio.

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(c) Calculate the break-even point in sales revenue.

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Additional information

The directors require a target profit of $140 000 to be made next month.

(d) Calculate the sales revenue required to achieve the target profit.

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Additional information

The directors are prepared to accept a special order with a negative contribution.

(e) State **three** reasons why a special order with a negative contribution might be accepted.

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2 .....

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3 .....

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[3]

Additional information

At **another** factory of K Limited three different types of product are made. The following details are available.

	Aye	Bee	Cee
Selling price per unit	$35	$43	$28
Maximum monthly demand per product	2400 units	3200 units	1800 units
Materials used per unit	6 kg	8 kg	4 kg
Labour cost per unit	$12	$14	$10

Materials cost $1.50 per kg.

Only 35 000 kg of material are forecast to be available in January 2025.

Forecast fixed costs are $63 000 per month.

(f) Calculate the optimum profit to be made in January 2025.

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Additional information

A director has found an overseas supplier of materials who is prepared to make up the shortfall in materials. The supplier will charge $2.60 per kg and there will be a delivery charge of $8000.

(g) Calculate the **additional** profit to be made if the shortfall in materials is made up by the overseas supplier.

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(h) Advise the directors whether or not they should purchase the shortfall in materials from the overseas supplier. Justify your answer, considering **both** advantages and disadvantages.

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[Total: 30]

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