Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

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.

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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		(182 360)
		92 140
Add discounts received		820
Gross profit		92 960
Add bank loan		4 200
		97 160
Less expenses		
Carriage inwards	1 020	
Drawings	18 740	
General expenses	22 280	
Insurance	1 730	
Rent	20 250	
Loan interest	210	
		(64 230)
Profit for the year		32 930

The following had not been accounted for.

1 Ismail had taken goods for his own use. These goods cost $420 and had a selling price of $630.

2 Carriage inwards included capital expenditure of $400 on non-current assets which had been paid on 18 January 2019.

3 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.

4 The amount shown for insurance included $720 for the six-month period ending 30 April 2020.

5 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.

6 Interest on the bank loan is charged at 10% per annum.

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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 $25 000. 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.

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3 .....

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4 .....

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[4]

[Total: 30]

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.

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[4]

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

1 .....

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[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	1219.62 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	1206.22		368.87 Dr
29 Oct	Credit transfer: H Ltd		229.48	139.39 Dr

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

Cash Book (bank columns)

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

REQUIRED

(c) Prepare Noor's updated cash book.

Cash Book (bank columns)

	$		$
		Balance b/d	625.48

[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	

[5]

[Total: 15]

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[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.

	$000
Equity	
Share capital – ordinary shares of $0.25 each	1200
Share premium	480
Retained earnings	295
	1975

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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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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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

[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.

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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 $12 500 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.

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REQUIRED

(e) Calculate the forecast profit per month for:

(i) Option A

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(ii) Option B

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[11]

(f) Recommend which option the directors should choose. Justify your answer.

[7]

[Total: 30]

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