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Cambridge Assessment International Education

# Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

*6171181516 3*

**ACCOUNTING** **9706/21**

Paper 2 Fundamentals of Accounting **October/November 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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[Turn over

**1** The financial year end of T Limited was 30 June 2024. On that date the following balances were extracted from the books of account.

| | Debit $ | Credit $ |
|---|---|---|
| 8% Bank loan (2024) | | 54 000 |
| Administrative expenses | 131 310 | |
| Bank overdraft | | 12 380 |
| Cash | 240 | |
| Carriage inwards | 820 | |
| Distribution costs | 114 870 | |
| Finance costs | 5 180 | |
| Fixtures and fittings<br>Cost<br>Provision for depreciation at 1 July 2023 | 16 200 | <br><br>9 560 |
| Inventory at 1 July 2023 | 93 400 | |
| Land and buildings<br>Cost<br>Provision for depreciation at 1 July 2023 | 165 000 | <br><br>6 300 |
| Motor vehicles<br>Cost<br>Provision for depreciation at 1 July 2023 | 82 000 | <br><br>34 590 |
| Purchases | 293 780 | |
| Retained earnings | | 38 450 |
| Revenue | | 705 100 |
| Share capital | | 80 000 |
| Trade payables | | 32 160 |
| Trade receivables | 69 740 | |

The following information is also available.

1 On 15 June 2024, goods were delivered and invoiced to a credit customer on a sale or return basis. The goods had a selling price of $12 000 including a mark-up of 25%.

On 30 June 2024, inventory was counted and valued at cost, $86 400. On the same date, the customer informed T Limited that he had not yet decided whether to keep the goods.

2 Distribution costs include a charge of $3120 for motor insurance for the year ending 30 November 2024.

3 An irrecoverable debt of $540 is to be written off to administrative expenses.

4 The directors have decided to create an allowance for irrecoverable debts of 5% of trade receivables to be charged to administrative expenses.

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5 Administrative expenses, $680, are outstanding at 30 June 2024.

6 On 30 June 2024, T Limited took out a 5% debenture (2028–2029) of $45 000. On the same date the company repaid one half of the 8% bank loan (2024) together with the three months' interest outstanding at 30 June 2024. None of these transactions have yet been recorded in the books of account.

7 Land and buildings included land at cost, $60 000. Land is **not** depreciated.

8 Depreciation is to be provided as follows:

| Non-current asset | Annual rate | Method | Charge to |
|---|---|---|---|
| Fixtures and fittings | 10% | Reducing balance | Administrative expenses |
| Land and buildings | 2% | Straight-line | Distribution costs |
| Motor vehicles | 20% | Reducing balance | Distribution costs |

9 Taxation for the year is estimated to be $26 000.

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**(a)** Prepare the statement of profit or loss for the year ended 30 June 2024. Use the space provided on **page 5** to show your workings.

T Limited

Statement of profit or loss for the year ended 30 June 2024

| | $ |
|---|---|
| Revenue | |
| Cost of sales | |
| Gross profit | |
| Distribution costs | |
| Administrative expenses | |
| Profit from operations | |
| Finance costs | |
| Profit before Taxation | |
| Taxation | |
| Profit for the year | |

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Workings:

| |
|---|
| Cost of sales |
| Allowance for irrecoverable debts |
| Depreciation |
| Distribution costs |
| Administrative expenses |
| Finance costs |

[15]

**(b)** Calculate the balance of cash and cash equivalents at 30 June 2024.

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**(c)** Prepare an extract from the statement of financial position at 30 June 2024 to show the **equity and liabilities section only**.

T Limited

Statement of financial position at 30 June 2024

| | $ |
|---|---|
| Equity | |
| | |
| | |
| Total equity | |
| Liabilities | |
| Non-current liabilities | |
| | |
| Current liabilities | |
| | |
| | |
| | |
| Total liabilities | |
| Total equity and liabilities | |

Workings:

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**(d)** Assess the directors' decision on 30 June 2024 to take out the 5% debenture (2028–2029). Justify your assessment by considering **both** advantages and disadvantages of the decision to the company.

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**2** Deepak maintains a full set of accounting records. The trial balance at 30 September 2024 did not balance and the difference was posted to a suspense account. The sales ledger control account and the purchases ledger control account are part of the double entry system.

The following errors were discovered.

1 A cheque received, $610, from Sanjay, a credit customer, had been dishonoured by the bank but no entry had been made in the books of account.

2 Goods returned, $240, by Kamal, a credit customer, had been credited to the sales ledger control account and debited to the purchases account.

3 Goods returned, $150, to Kohli, a credit supplier, had been correctly entered in both the purchases returns journal and the purchases ledger control account but had been posted to the debit of the sales returns account.

4 A credit note, $498, received from Bharti, a credit supplier, had been correctly entered in the purchases returns journal but had been debited to the purchases ledger control account as $489.

**(a)** Prepare journal entries to correct each error. Narratives are **not** required.

Journal

| Error | | Debit $ | Credit $ |
|---|---|---|---|
| 1 | | | |
| | | | |
| | | | |
| 2 | | | |
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**(b)** Prepare the suspense account at 30 September 2024 clearly showing the opening balance brought down. Dates are **not** required.

Suspense account

| Details | $ | Details | $ |
|---|---|---|---|
| | | | |
| | | | |
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**Additional information**

The trial balance included the following balances:

| | Debit $ | Credit $ |
|---|---|---|
| Purchases ledger control account | | 8640 |
| Sales ledger control account | 12420 | |

**(c)** Calculate the revised balances of the:

**(i)** Purchases ledger control account

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**(ii)** Sales ledger control account.

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[Total: 15]

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**3** Clarissa started her business on 1 July 2022, and she is preparing her financial statements for the year ended 30 June 2024.

She depreciates her motor vehicles at 25% per annum using the straight-line method. Depreciation is charged on a monthly basis.

She purchased a motor vehicle on 1 July 2022 costing $24 000.

She estimated that the motor vehicle would have a useful life of four years with no residual value.

On 30 September 2023 she purchased a new motor vehicle costing $70 000. The old motor vehicle was part-exchanged at a value of $14 800. The balance was settled with an interest-free loan repayable in equal monthly instalments over two years. The first loan instalment was due to be paid on 31 October 2023.

She estimated that the new motor vehicle would have a useful life of four years with a residual value of $16 000.

**(a)** Prepare **each** account for the year ended 30 June 2024.

Motor vehicle at cost account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| | | | | | |
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Motor vehicle provision for depreciation account

| Date | Details | $ | Date | Details | $ |
|---|---|---|---|---|---|
| | | | | | |
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**(b) (i)** Calculate the outstanding balance on the interest-free loan at 30 June 2024.

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**(ii)** State how the interest-free loan would be shown in the statement of financial position at 30 June 2024.

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**Additional information**

Clarissa has been advised that she should consider charging depreciation on the reducing balance method rather than the straight-line method.

**(c)** Advise Clarissa whether or not she should change her method of charging depreciation. Justify your advice by discussing **both** methods.

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**4** Alberto owns a manufacturing business.

**(a)** Define each term:

**(i)** cost centre

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**(ii)** cost unit

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**(iii)** direct cost

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**(iv)** indirect cost.

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**Additional information**

Alberto's business operates a system of absorption costing.

There are two production departments, Machining and Finishing, and two service departments, Stores and Canteen.

The budgeted information for the year ended 30 September 2024 is available.

| | Production departments | | Service departments | |
|---|---|---|---|---|
| | Machining $ | Finishing $ | Stores $ | Canteen $ |
| Number of employees | 6 | 10 | 4 | - |
| Floor area (square metres) | 3000 | 5000 | 1500 | 500 |
| Stores requisitions | 3600 | 5400 | – | – |
| Direct labour hours | 14300 | 18500 | – | – |
| Machine hours | 28900 | 3600 | – | – |

The following indirect overheads have **not** yet been apportioned.

| | $ |
|---|---|
| Light and heat | 12800 |
| Production supervisors' wages | 42000 |

**(b)** Complete the table to apportion costs to the production departments.

| | Total $ | Production departments | | Service departments | |
|---|---|---|---|---|---|
| | | Machining $ | Finishing $ | Stores $ | Canteen $ |
| Allocated overheads | 512100 | 195200 | 234700 | 66400 | 15800 |
| Light and heat | 12800 | | | | |
| Production supervisors' wages | 42000 | | | | |
| Total overheads | 566900 | | | | |
| Reapportion Canteen | | | | | |
| | | | | | |
| Reapportion Stores | | | | | |
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**(c)** Calculate, to **two** decimal places, a suitable overhead absorption rate for **each** production department.

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**Additional information**

The actual results for the year ended 30 September 2024 were as follows:

| | Machining | Finishing |
|---|---|---|
| Total overheads | $249 200 | $320 400 |
| Direct labour hours | 14 220 | 18 650 |
| Machine hours | 26 880 | 3 910 |

**(d)** Calculate the over-absorption or under-absorption of overheads for **each** production department.

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**Additional information**

Alberto has been asked to prepare a quotation for a new customer to supply 12 units of a product.

Each unit would require the following:

| | |
|---|---|
| Direct material | 4 metres at $3.85 per metre |
| Direct labour | Machining department – 0.75 hours |
| | Finishing department – 1.5 hours |
| Overheads<br>Machining department | 0.5 direct labour hours<br>0.5 machine hours |
| Overheads<br>Finishing department | 1 direct labour hour<br>0.75 machine hours |

The budgeted hours for the year ending 30 September 2025 will remain unchanged from the previous year. The **total** direct labour budget for the year is as follows:

| | $ |
|---|---|
| Machining department | 127 270 |
| Finishing department | 183 150 |

Alberto wishes to achieve a gross margin of 40% on the work.

**(e) (i)** Calculate the budgeted hourly direct labour rate for **each** department.

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**(ii)** Prepare a statement to show the **total** selling price that Alberto should quote the customer.

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**Additional information**

Alberto is aware that the factory is not currently working at full capacity. In order to secure the work, he has quoted a very competitive price.

The new customer has agreed to accept the quotation only if Alberto agrees to allow a 20% discount for immediate settlement on delivery.

**(f)** Advise Alberto whether or not he should accept the proposed terms offered by the customer. Justify your advice by discussing **both** financial and non-financial matters.

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