



## Cambridge International AS & A Level

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NAME

CENTRE  
NUMBER

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### 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.

- 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.

- Administrative expenses include \$1800 insurance for the three months ended 29 February 2020.
- 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.
- 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.
- 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. |               |                         |

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

**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.

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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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[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         | <u>120 120</u> |                |
|                   | 131 560        |                |
| Closing inventory | <u>14 560</u>  |                |
| Cost of sales     |                | <u>117 000</u> |
| Gross profit      |                | <u>28 500</u>  |

Extract from the Statement of Financial Position at 31 December 2019

|                           | \$            |
|---------------------------|---------------|
| Current assets            |               |
| Inventory                 | 14 560        |
| Trade receivables         | 9 300         |
| Cash and cash equivalents | <u>4 240</u>  |
|                           | <u>28 100</u> |
| Current liabilities       |               |
| Bank overdraft            | 8 000         |
| Trade payables            | <u>10 400</u> |
|                           | <u>18 400</u> |

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]



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

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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 |  |    |    |
|   |  |    |    |
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[5]

(c) Prepare the suspense account.

Suspense Account

|  | \$ |  | \$ |
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[4]

**Additional information**

The business’s draft profit for the year ended 30 September 2019 was \$68440 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]



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<br>department | Decoration<br>department | Stores<br>department | Maintenance<br>department |
|---------------------------------|----------------------|--------------------------|----------------------|---------------------------|
| Floor space (m <sup>2</sup> )   | 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                   |                      |                           |



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

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**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.

**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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