



# Cambridge International AS & A Level

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## ACCOUNTING

9706/21

Paper 2 Fundamentals of Accounting

October/November 2025

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 **16** pages.

- 1 The following balances were extracted from the books of T plc after the preparation of the statement of profit or loss for the year ended 31 December 2024.

|                                           | \$      |
|-------------------------------------------|---------|
| 8% debentures (2025)                      | 150 000 |
| Bank overdraft                            | 17 800  |
| Furniture and equipment at carrying value | 442 000 |
| Inventory                                 | 57 300  |
| Property at valuation                     | 785 400 |
| Trade and other payables                  | 28 700  |
| Trade and other receivables               | 33 400  |

Retained earnings include a draft profit figure of \$104 800. However, it has been discovered that some errors had been made when preparing the statement of profit or loss.

- 1 The closing inventory had been overstated by \$4 500.
- 2 Distribution costs included the total cost of a 9-month advertising campaign for \$32 400, which will end on 31 May 2025.
- 3 Furniture and equipment had been depreciated by 15% per annum using the reducing balance method instead of 20% per annum using the reducing balance method.
- 4 Debenture interest is payable every half year. No adjustment had been made for the payment due on 28 February 2025.
- 5 No provision had been made for taxation of \$14 800.



(a) Calculate the revised profit for the year ended 31 December 2024.

Draft profit

\$  
104 800

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Workings:

[7]



**Additional information**

- 1 On 1 August 2024, the directors had made a bonus issue of two ordinary shares for every three ordinary shares held at that date. The company policy is to maintain reserves in their most flexible form. Ordinary shares have a face value of \$0.50 each.
  - 2 On 1 October 2024, the directors had paid a dividend of \$0.03 per share on all shares in issue at this date.
  - 3 At 31 December 2024, the directors decided to revalue the property to \$680 000.
- (b)** Complete the statement of changes in equity for the year ended 31 December 2024.

T plc  
Statement of changes in equity for the year ended 31 December 2024

|                     | Share<br>capital<br>\$ | Share<br>premium<br>\$ | Revaluation<br>reserve<br>\$ | Retained<br>earnings<br>\$ | Total<br>\$ |
|---------------------|------------------------|------------------------|------------------------------|----------------------------|-------------|
| At 1 January 2024   |                        | 120 000                | 80 000                       | 330 800                    |             |
|                     |                        |                        |                              |                            |             |
|                     |                        |                        |                              |                            |             |
|                     |                        |                        |                              |                            |             |
|                     |                        |                        |                              |                            |             |
|                     |                        |                        |                              |                            |             |
| At 31 December 2024 | 900 000                |                        |                              |                            |             |

Workings:

[7]





**(c)** Prepare the statement of financial position at 31 December 2024.

T plc

## Statement of financial position at 31 December 2024

[9]





### Additional information

The directors are considering two options of financing the redemption of debentures in 2025:

option A: make a new issue of 250 000 ordinary shares of \$0.50 each at a premium of \$0.10 per share

option B: make an issue of 8% debentures (2030).

- (d) Advise the directors which option they should choose. Justify your choice by considering the advantages and disadvantages of **both** options.

[7]

[Total: 30]



- 2 Reza owns a large retail business. As the business has many credit customers and credit suppliers, she was advised to maintain purchases ledger and sales ledger control accounts.

(a) Explain **two** benefits of maintaining control accounts.

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[4]



**Additional information**

Reza decides to maintain control accounts as a part of the double entry system.

On 1 January 2025, the balance of the purchases ledger control agreed with the total of balances in the purchases ledger of \$23 420.

The following is a summary of transactions for January 2025.

|                                                             | \$     |
|-------------------------------------------------------------|--------|
| Payments to credit suppliers                                | 21 470 |
| Discounts received                                          | 283    |
| Refund from a credit supplier resulting from an overpayment | 45     |
| Contra with sales ledger                                    | 236    |
| Interest charged by a credit supplier on an overdue account | 33     |
| Purchases journal                                           | 22 711 |
| Purchases returns journal                                   | 280    |

(b) Prepare the purchases ledger control account for January 2025.

## Purchases ledger control account

| Details | \$ | Details | \$ |
|---------|----|---------|----|
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |
|         |    |         |    |
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[6]



**Additional information**

On 31 January 2025, the total of the balances in the sales ledger was \$17 180. However, the balance on the sales ledger control account was different. The following errors have been discovered which account for this difference.

- 1 The balance of the sales ledger control account had been miscalculated. The total of the debit entries was \$82 490, and the total of the credit entries was \$65 550.
- 2 The total of the discounts allowed column in the cash book had been undercast by \$90.
- 3 A credit note issued to a credit customer for \$120 had been correctly entered in the book of prime entry but had been debited to the account of the customer as \$210.

(c) Calculate an amended figure for **each** of the following:

(i) sales ledger total of balances

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(ii) sales ledger control account balance.

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[Total: 15]



- 3 The directors of N Limited use ratios to review the performance of the company.

The following details are available for the previous two years.

|                        | Year ended<br>31 December<br><b>2024</b> | Year ended<br>31 December<br><b>2023</b> |
|------------------------|------------------------------------------|------------------------------------------|
| Revenue                | ?                                        | \$560 000                                |
| Purchases              | \$343 000                                | \$370 000                                |
| Cost of sales          | \$345 000                                | ?                                        |
| Gross profit margin    | 40%                                      | 35%                                      |
| Inventory at 1 January | \$38 000                                 | ?                                        |

- (a) Calculate the opening inventory at **1 January 2023**.

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- (b) Calculate the revenue for the year ended **31 December 2024**.

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- (c) Calculate the closing inventory at **31 December 2024**.

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- (d) Calculate the inventory turnover (**days**) for each of the years ended 31 December 2023 and 2024.

|                                       |  |
|---------------------------------------|--|
| Year ended<br>31 December <b>2023</b> |  |
| Year ended<br>31 December <b>2024</b> |  |

[5]

### Additional information

The directors wish to improve the inventory turnover (days) ratio.

One director has suggested reducing inventory levels.

- (e) Identify **two** possible drawbacks which could result from this suggestion.

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2 .....

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[2]

- (f) Identify **two** ways in which the inventory turnover (days) ratio could be improved **other than** by reducing inventory levels.

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[2]

[Total: 15]



- 4 B Limited uses absorption costing at one of its factories where two products are made: Wye and Zed.

The budgeted production for January 2026 is as follows:

|     | units  | direct labour hours per unit |
|-----|--------|------------------------------|
| Wye | 8 000  | 2.5                          |
| Zed | 14 000 | 1.7                          |

Budgeted overheads for January 2026 are \$67 890.

- (a) Calculate, to **two** decimal places, the overheads to be absorbed by **one unit** of **each** product using the direct labour hour method.

Wye .....

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Zed .....

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[4]

- (b) Calculate the **total** amount of overheads absorbed by each product if budgets are met.

Wye .....

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Zed .....

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[2]

- (c) State **two** reasons why overheads may be under-absorbed.

1 .....

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2 .....

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[2]



**Additional information**

A customer has ordered 1200 units of product Zed for delivery in January 2026.

The following additional information is available about product Zed.

- One unit of product Zed requires direct materials costing \$7.
- The direct labour rate is \$11 per hour.
- The selling price of an order is set to achieve a profit margin of  $33\frac{1}{3}\%$ .

(d) Calculate the **total** selling price for the order.

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**Additional information**

B Limited manufactures a single type of product at a second factory where marginal costing is used. The following budgeted information is available.

|                  | per unit                   |
|------------------|----------------------------|
| selling price    | \$108                      |
| direct materials | 2.5 kg at \$15.50 per kg   |
| direct labour    | 1.5 hours at \$12 per hour |

The company relies on one supplier who is currently only able to supply a limited quantity of direct materials. As a result, the factory is producing 14 000 units per month, which is 70% of normal capacity.

Currently, the supplier delivers direct materials 4 times each month. Each delivery incurs carriage charges of \$4300.

Fixed costs per month are forecast to be \$136 000 **including** carriage charges.

(e) Calculate the current profit **per month**.

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**Additional information**

The directors have contacted an overseas supplier of direct materials.

- The materials will cost \$20 per kg, which **includes** carriage charges.
- The supplier will make one delivery of direct materials each month.

The overseas supplier is prepared to supply sufficient materials for B Limited to work at 90% of normal capacity.

- (f) Prepare a marginal costing statement for **one month** if the directors use the overseas supplier.

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(g) Advise the directors whether or not they should purchase the direct materials from the overseas supplier. Justify your answer by discussing **both** financial **and** non-financial factors.

..... [7]

[Total: 30]

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