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9706/21

October/November 2023

1 hour 45 minutes

You must answer on the question paper.

No additional materials are needed.

- 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.

- 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. Any blank pages are indicated.

- 1 Laila, a retailer, did not maintain a full set of accounting records for her business. She has provided the following information for the year ended 30 September 2023.

Balances at 1 October 2022

	\$
Inventory	12 030
Non-current assets at carrying value	22 180
Other payables: light and heat	210
Other receivables: insurance	480
Trade payables	3 840
Trade receivables	4 540

Summary of bank account for the year ended 30 September 2023

	\$		\$
Receipts: trade receivables	55 390	Balance b/d	1 220
Sale of non-current assets	860	Payments: trade payables	46 280
Balance c/d	1 170	Insurance	2 560
		Light and heat	3 510
		Drawings	3 850
	<u>57 420</u>		<u>57 420</u>
		Balance b/d	1 170

The following information is also available at 30 September 2023.

- 1 Laila has started to prepare her financial statements for the year ended 30 September 2023. The following figures are available to transfer to the statement of profit or loss **with no adjustment**.

	\$
Insurance	2 720
Light and heat	3 880
Loss on disposal of non-current asset	120

- 2 All sales are made at a mark-up of 25%.
- 3 All sales and purchases are made on credit.
- 4 The balance of trade receivables at 30 September 2023 was \$3650.
- 5 There were no additions to non-current assets during the year.
- 6 All non-current assets are to be depreciated at 10% per annum using the reducing balance method.
- 7 Laila was unable to physically count the inventory at 30 September 2023. The inventory was valued at \$14 400 on 4 October 2023.
- 8 Between 1 October 2023 and 4 October 2023, Sales were \$3400 and Purchases were \$1850.

- [3]

- Laila
- Statement of profit or loss for the year ended 30 September 2023

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Workings:

[8]

(c) Prepare the statement of financial position at 30 September 2023.

Workings:

Equity at 1 October 2022

Other receivables

Trade payables

Other payables

Laila
Statement of financial position at 30 September 2023

[12]

Additional information

Laila wishes to expand the business and is considering forming a partnership with her friend.

- (d) State **four** provisions of the Partnership Act 1890 that would apply in the absence of a partnership agreement.

1

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2

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3

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[4]

- (e) State **three** possible disadvantages to a business of maintaining a full set of accounting records.

1

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2

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3

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[3]

[Total: 30]

- 2 Q Limited has been in business for a number of years. One of the directors is unsure of the difference between a capital reserve and a revenue reserve.

(a) Explain **one** difference between a capital reserve and a revenue reserve.

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.....

.....

..... [2]

Additional information

The directors of Q Limited provided the following information for the year ended 30 June 2023.

Balances at 1 July 2022	\$
Share capital: ordinary shares of \$0.50 each	30 000
Share premium	4 500
Revaluation reserve	6 000
Retained earnings	50 240
Total equity	90 740
8% debenture (2024)	40 000

At 1 July 2022, land, original cost \$80 000, had a valuation of \$86 000. No other non-current assets had been revalued.

The following transactions took place during the year ended 30 June 2023.

Date	
1 August 2022	Made a bonus issue of one ordinary share for every six shares held. The directors maintained the reserves in the most flexible form.
1 October 2022	Paid a final dividend of \$0.04 per share on all shares in issue at that date.
1 January 2023	Made a rights issue of two ordinary shares for every seven shares held at a price of \$0.65 per share. The issue was fully subscribed.
1 April 2023	Paid an interim dividend of \$0.02 per share on all shares in issue at that date.
30 June 2023	Land was revalued at \$75 000.

The draft profit for the year ended 30 June 2023 was \$43 600.

(b) Prepare the statement of changes in equity for the year ended 30 June 2023.

Q Limited
Statement of changes in equity for the year ended 30 June 2023

	Share capital \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total \$
At 1 July 2022					

[8]

The directors of Q Limited have plans to expand the business at a total cost of \$54 000 and are considering two options to raise finance.

Issue a 10% debenture (2026–2027) of \$54 000.

[5]

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- 3 Yasmine has a retail business. She extracted a trial balance at 30 June 2023, the totals of which did not agree.

(a) State **two** types of error that **will** be revealed by a trial balance.

- 1
- 2 [2]

(b) Explain the meaning of **each** of the following types of error.

(i) Error of original entry

..... [1]

(ii) Error of principle

..... [1]

(iii) Error of commission

..... [1]

Additional information

The difference in the trial balance was posted to a suspense account to enable the financial statements to be produced.

Yasmine discovered the following errors, correction of which would clear the difference.

- 1 The sales journal total had been overstated by \$300.
- 2 The total of the purchases returns journal, \$2450, had not been posted to the general ledger.
- 3 Discounts allowed, \$1660, had been posted to the credit of the discounts received account.
- 4 The balance of the carriage inwards account at 30 June 2023, \$3570, had been brought down as \$3750.

- (c) Prepare the suspense account to show the correction of the errors, clearly identifying the difference that was present in the trial balance before the errors were corrected.

Suspense account

	\$		\$

[5]

Additional information

Before discovering the errors, Yasmine had prepared a draft statement of profit or loss showing a profit for the year of \$36 165. The suspense account balance was **not** included in the profit calculation.

- (d) Calculate the revised profit for the year **after** correction of the errors.

	Increase \$	Decrease \$	\$
Draft profit for the year			36 165
Error 1			
Error 2			
Error 3			
Error 4			
Revised profit for the year			

[5]

[Total: 15]

- 4 Javid manufactures a single product. He currently uses a system of absorption costing but is considering changing to marginal costing.

The following budgeted information is available for one unit of the product.

	\$
Selling price	18
Direct material	7
Direct labour	5

Budgeted production	12 000 units per month
Budgeted fixed overheads	\$36 000 per month

At 1 August, Javid held no inventory.

The following actual results are available.

	August	September
Sales (units)	8 000	12 000
Production (units)	10 000	10 000
Fixed overheads	\$36 000	\$36 000

- (a) Prepare a profit statement for **each** of the months August and September using absorption costing.

Javid
Absorption cost profit statement

[illegible]

[6]

- (b) Prepare a profit statement for **each** of the months August and September using marginal costing.

Javid
Marginal cost profit statement

	August		September	
	\$	\$	\$	\$

[6]

- (c) Prepare a statement reconciling the absorption cost profit for August with the marginal cost profit for August.

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..... [3]

- (d)** Advise Javid whether or not he should change from absorption costing to marginal costing. Justify your answer.

[7]

- (e) State **two** possible causes of over-absorption of overheads.

1

2

[2]

(f) Explain **one** difference between a cost centre and a cost unit.

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.....

.....

..... [2]

(g) State how closing inventory is valued using each method of inventory valuation:

(i) first in first out (FIFO)

.....

..... [1]

(ii) weighted average cost (AVCO).

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..... [1]

Additional information

Javid is investigating the just in time (JIT) method of inventory management.

(h) Explain a principle of the JIT method of inventory management.

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..... [2]

[Total: 30]

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