



# Cambridge International AS & A Level

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NAME

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**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.

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

The following had not been accounted for.

- Ismail had taken goods for his own use. These goods cost \$420 and had a selling price of \$630.
- Carriage inwards included capital expenditure of \$400 on non-current assets which had been paid on 18 January 2019.
- 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.
- The amount shown for insurance included \$720 for the six-month period ending 30 April 2020.
- 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.
- Interest on the bank loan is charged at 10% per annum.

**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 \$25000. 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.



- 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.

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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	1 219.62 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	1 206.22		368.87 Dr
29 Oct	Credit transfer: H Ltd		229.48	139.39 Dr

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	
		<u>3644.97</u>	<u>3644.97</u>
			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]  
[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	<u>295</u>
	<u>1975</u>

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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(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.

- 1 .....
- .....
- 2 .....
- .....

[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 \$12500 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.

**REQUIRED**

(e) Calculate the forecast profit per month for:

(i) Option A

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(ii) Option B

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[11]



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