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ACCOUNTING

9706/21

Paper 2 Fundamentals of Accounting

October/November 2023

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. 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.

(a) Calculate the value of closing inventory at 30 September 2023.

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..... [3]

(b) Prepare the statement of profit or loss for the year ended 30 September 2023. Use the space provided on **page 4** to show your workings.

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

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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

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
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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
-
- 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]

Additional information

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.

Option 1:

Make a rights issue of four ordinary shares for every five shares held at a price of \$0.75 per share.

Option 2:

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

(c) Advise the directors which option, if either, they should choose. Justify your decision.

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[Total: 15]

- 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

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 [1]

(ii) Error of principle

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 [1]

(iii) Error of commission

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 [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

	August		September	
	\$	\$	\$	\$

[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]

(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)

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..... [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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