



Cambridge International AS & A Level

CANDIDATE
NAME

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CENTRE
NUMBER

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NUMBER

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ACCOUNTING

9706/02

Paper 2 Fundamentals of Accounting

For examination from 2023

SPECIMEN PAPER

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 Hamid and Jamila have been in partnership for several years and do not have a partnership agreement. They do not maintain full accounting records.

(a) (i) State **two** disadvantages to Hamid and Jamila of trading as a partnership rather than as sole traders.

- 1
-
- 2
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[2]

(ii) State **three** items other than the profit and loss sharing ratio which may be included in a partnership agreement.

- 1
- 2
- 3

[3]

Additional information

The following information is also available for the year ended 31 December 2020.

	\$
Administrative expenses paid	8 228
Insurance paid	1 090
Purchase of additional furniture and fittings	4 500
Purchases of goods for resale	112 152
Receipts from the disposal of furniture and fittings	575
Rent of business premises	14 500
Staff wages	10 230

All goods are sold with a mark-up of 50%.

During the year Hamid took goods for his own use but no record was made of their value.

Furniture and fittings with a carrying value of \$800 were disposed of during the year.

(c) Prepare the partnership statement of profit or loss for the year ended 31 December 2020.

Workings:

2 Sergio is a sole trader. His book-keeper prepares regular bank reconciliation statements.

(a) State **two** benefits of preparing regular bank reconciliation statements.

- 1
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- 2
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[2]

Additional information

Sergio is preparing his financial statements to 31 May 2020.

His bank statement shows the following for the first week of June 2020:

Date	Details	Debit	Credit	Balance	
2020		\$	\$	\$	
31 May	Balance			12 350	Debit
1 June	Cash and cheques banked		1 211	11 139	Debit
2 June	Cheque 1681	527		11 666	Debit
	Cheque 1682	361		12 027	Debit
	Cash and cheques banked		2 170	9 857	Debit
3 June	Cheque 1683	1 260		11 117	Debit
4 June	Standing order adjustment		225	10 892	Debit
6 June	BACS Sofia	536		11 428	Debit
7 June	Balance			11 428	Debit

The following information is also available.

- The deposits on 1 June and 2 June both relate to amounts received and recorded by Sergio in his cash book for the month of May.
- The last cheque that Sergio issued in May 2020 was number 1683.
- The adjustment on 4 June 2020 related to a standing order debited by the bank in error on 27 May 2020.
- On 5 June 2020 Sergio received a letter from the bank that had been delayed in the post. The letter stated that on 29 May 2020:

bank charges of \$90 and bank interest of \$120 had been debited to his account

an amount of \$360 had been received electronically from Alvaro, a credit customer.

Additional information

Sergio’s bank manager has asked Sergio to repay the overdraft within the next three months.

Sergio has identified two possible options.

Option 1: Miguel, a close friend, would provide Sergio with a loan of \$10 000 repayable in five annual instalments of \$2500.

Option 2: Sergio could take a seven-year bank loan from another bank for \$16 000. This bank would require annual interest of \$1000 and security for the loan.

(c) Explain the benefits and drawbacks to Sergio of each option.

Option 1

benefits

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drawbacks

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Option 2

benefits

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drawbacks

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[6]

[Total: 15]

3 The directors of AB plc have decided to make a rights issue and a bonus issue of ordinary shares.

(a) Identify **two** advantages to the company of:

(i) a rights issue of ordinary shares

- 1
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- 2
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- [2]

(ii) a bonus issue of ordinary shares.

- 1
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- 2
-
- [2]

Additional information

The following information is available for AB plc at 1 January 2020.

Equity	\$
Ordinary share capital (\$0.50 shares)	120 000
Share premium	25 000
Retained earnings	43 000

AB plc has adopted the revaluation model for measuring the value of its non-current assets.

During the year ended 31 December 2020 the following took place:

- 1 July The directors made a rights issue of one ordinary share for every 6 held at a premium of \$0.05 per share. The issue was fully subscribed.
- 1 August The directors made a bonus issue of 1 ordinary share for every 5 held on that date. They wished to keep the reserves in their most flexible form.
- 30 September The directors paid an interim dividend of \$0.08 per share on all shares in issue at that date.
- 31 December Land which had cost \$120 000 is now only worth \$100 000. This has not been adjusted in the books of account.

The company made a profit for the year ended 31 December 2020 of \$18 000.

(b) Prepare the ledger accounts to record these transactions.

Ordinary share capital account

		\$			\$

Share premium account

		\$			\$

Retained earnings account

		\$			\$

[11]

[Total: 15]

- 4 Z Limited is a manufacturing company. It operates two production departments and two service departments. The costs are allocated to each department as follows:

	Production departments		Service departments	
	Machining	Finishing	Stores	Canteen
	\$	\$	\$	\$
Indirect labour	253 000	340 100	52 000	78 000
Other indirect overhead costs	<u>205 000</u>	<u>225 000</u>	<u>80 000</u>	<u>92 000</u>
Total indirect costs	<u>458 000</u>	<u>565 100</u>	<u>132 000</u>	<u>170 000</u>

The costs of the service departments are to be apportioned to the other departments as follows:

- Canteen in proportion to the number of employees
- Stores in proportion to the number of stores requisitions

The following information is available:

	Machining	Finishing	Stores	Canteen
Number of employees	5	9	3	1
Direct labour hours	15 000	40 000		
Machine hours	45 000	25 000		
Number of stores requisitions	6 300	7 200		

- (a) Apportion the service department costs by completing the table.

	Machining	Finishing	Stores	Canteen
	\$	\$	\$	\$
Total indirect costs	458 000	565 100	132 000	170 000
Reapportionment of canteen costs				
Reapportionment of stores				
Total apportioned costs				

[6]

- (b) Calculate, to **two** decimal places, a suitable overhead absorption rate for each of the production departments.

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Additional information

Z Limited has been approached by a customer to quote for one of their products. This will require the following:

Direct materials 20 kilos at \$5 per kilo
Direct labour 8 hours at \$9 per hour

Direct labour hours and machine hours required in each department will be:

	Machining	Finishing
Direct labour	3 hours	5 hours
Machine time	2 hours	20 minutes

It is the company's policy to achieve a gross margin of 40% on all its products.

(c) Calculate the total price to quote to the customer.

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Additional information

The customer has said they will buy the goods from Z Limited, but at a price which will earn Z Limited a gross margin of 25%.

(d) Advise the directors whether or not they should accept the offer. Justify your answer.

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Additional information

Z Limited operates a second factory. It uses both direct labour hours and machine hours to absorb its factory overheads. The cost accountant has suggested that a single factory-wide overhead absorption rate should be used instead.

(e) Advise the directors whether or not they should make this change. Justify your answer.

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