



Cambridge International AS & A Level

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ACCOUNTING

9706/21

Paper 2 Fundamentals of Accounting

May/June 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 **20** pages. Any blank pages are indicated.

- 1 Bilal provided the following information for his service business for the year ended 31 December 2024.

- 1 Receipts and payments for the year ended 31 December 2024 included:

	\$
Receipts	
Cash fees	78 440
Fees from credit clients	34 290
Rent received	4 950
Payments	
Advertising campaign	4 500
Electricity charges	3 610
General expenses	880
Motor vehicle running costs	1 320
Wages and salaries	31 600

- 2 On 1 January 2024, trade receivables were \$15 800, and on 31 December 2024, trade receivables were \$11 600.
- 3 On 1 January 2024, the allowance for irrecoverable debts was \$632. On 31 December 2024, Bilal decided to increase the allowance for irrecoverable debts by 1%.
- 4 On 1 January 2024, electricity charges of \$270 were outstanding. On 31 December 2024, electricity charges of \$490 were prepaid.
- 5 On 1 May 2024, part of the business premises was rented out at \$1 650 for every three months receivable in advance.
- 6 On 1 November 2024, the advertising campaign commenced. It will end on 31 January **2026**.
- 7 During the year ended 31 December 2024, a motor vehicle, cost \$21 000, was sold for \$9 100. It had been depreciated for three years at 20% per annum using the reducing balance method. No depreciation is provided in the year of sale.
- 8 Non-current assets at 31 December 2024 were:

	Date of purchase	Cost \$	Depreciation method
Business premises	1 January 2021	120 000	2% per annum straight-line
Motor vehicle	1 January 2024	26 000	20% per annum reducing balance
Furniture and equipment	1 January 2021	22 000	10% per annum straight-line





Bilal

Statement of profit or loss for the year ended 31 December 2024

This image shows a full page of white paper with horizontal dotted lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.



Workings:

Revenue
Allowance for irrecoverable debts
Electricity charges
Rent received
Advertising campaign
Profit or loss on disposal of motor vehicle
Depreciation

[14]





Additional information

At 31 December 2024, the cash at bank balance was \$8950.

- (b) Prepare an extract from the statement of financial position at 31 December 2024, showing the assets section **only**.

Statement of financial position (extract) at 31 December 2024

Assets

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Workings:

[7]





(c) Explain, with reference to an accounting concept, why Bilal:

(i) maintains an allowance for irrecoverable debts

concept

explanation

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[2]

(ii) always uses the same method of depreciation for each class of non-current asset.

concept

explanation

.....

.....

[2]

Additional information

Bilal hopes to expand his business and to move to larger premises. He is considering the following options.

Option A: Renting out the whole of the current business premises and taking out a lease on new premises.

Option B: Selling the current business premises and using the proceeds to partly finance the purchase of new premises. He is aware that he will also need a bank loan to finance the balance of the purchase price of the new premises.



[5]

[Total: 30]

2 Ben and George converted their partnership into a limited company, M Limited.

(a) Explain **two** benefits of trading as a limited company rather than as a partnership.

- 1
-
-
-
- 2
-
-
-
- [4]

Additional information

The following information was extracted from the books of M Limited at 31 December 2024.

	1 January 2024 \$	31 December 2024 \$
Share capital: ordinary shares of \$2 each	?	1 600 000
Share premium	320 000	400 000
Retained earnings	?	243 000
General reserve	–	50 000
8% Debenture (2029)	120 000	120 000
10% Bank loan	–	50 000
Taxation charge	16 000	22 000

On 31 March 2024, the directors had paid an interim dividend of \$0.05 per share on all ordinary shares held at this date.

On 30 June 2024, the directors had issued 200 000 ordinary shares at a premium of \$0.40 per share.

On 1 October 2024, the bank loan was taken out by M Limited.

For the year ended 31 December 2024, the profit for the year was \$285 000.





(b) Calculate the amount received from the issue of shares on 30 June 2024.

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..... [1]

(c) Calculate the total of the interim dividend paid on 31 March 2024.

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..... [2]

(d) Calculate the profit from operations for the year ended 31 December 2024.

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..... [4]

(e) Prepare the retained earnings account for the year ended 31 December 2024.

Retained earnings account

Date	Details	\$	Date	Details	\$

[4]

[Total: 15]





- 3 Khaled, the owner of a retail business, provided the following information.

	For the years ended 31 December	
	2024	2023
Gross profit margin	48%	45%
Profit margin	12%	13%

- (a) State the formula for calculating **each** of the following ratios.

Gross profit margin	
Profit margin	

[2]

- (b) Suggest **two** reasons which could explain the increase in the gross profit margin comparing 2024 with 2023.

- 1
- 2

[2]

- (c) Suggest **two** reasons which could explain the decrease in profit margin comparing 2024 with 2023, despite the increase in the gross profit margin.

- 1
- 2

[2]





Khaled has compared the recent liquidity ratios for his business with ratios for businesses of a similar size and trading in the same goods.

	Khaled's business For the years ended 31 December		Ratio for similar businesses
	2024	2023	
Current ratio	1.60 : 1	1.45 : 1	1.85 : 1
Acid test ratio	0.62 : 1	0.75 : 1	0.50 : 1

Khaled is pleased with the results of this comparison.

- (d)** Explain with reasons whether or not you agree with Khaled's view of his business's liquidity position. Justify your answer by commenting on **both** ratios.

[5]



Additional information

Khaled is aware that size of business and trading in similar goods are not the only factors to be considered in making comparisons with similar businesses.

- (e) Explain **two other** reasons why Khaled may find it difficult to make valid comparisons with similar businesses.

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2

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[4]

[Total: 15]





4 Ameerah's business uses absorption costing.

(a) Define the following terms:

(i) cost centre

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 [1]

(ii) fixed cost

.....
 [1]

(iii) indirect labour.

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 [1]

Additional information

The business operates two production departments: Processing and Assembly, and it operates two service departments: Maintenance and Stores.

The following budgeted information is available.

Overheads	
	\$
Rent	63 000
Depreciation	45 000

	Production departments		Service departments	
	Processing	Assembly	Maintenance	Stores
Floor area (square metres)	140	85	33	42
Machinery cost (\$)	120 000	36 000	20 000	4 000
Number of machines	7	3	—	—
Stores requisitions	48	74	18	





- (b) Complete the table to show the total overheads for each department and the reappportionment of service department overheads.

	Total \$	Production departments		Service departments	
		Processing \$	Assembly \$	Maintenance \$	Stores \$
Overheads allocated	570 760	256 480	193 980	65 720	54 580
Rent					
Depreciation					
Subtotal					
Reapportion Stores					
Subtotal					
Reapportion Maintenance					
Total overheads					

[5]

Additional information

Budgeted hours for each production department were as follows:

	Processing department	Assembly department
Direct labour hours	6 720	8 940
Direct machine hours	11 760	5 040

- (c) Calculate, to **two** decimal places, an overhead absorption rate for **each** production department, using a suitable basis.

Processing department	
Assembly department	

[4]





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

1

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2

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[2]

Additional information

The following information is available about pay rates for direct labour in the Processing department.

- Normally direct labour is paid \$9.60 per hour for a 32-hour week. Normal output is 24 units per hour.
- Sometimes more experienced direct labour is available and is paid \$10.50 per hour for a 30-hour week. Normal output is 30 units per hour.
- The company expects to make a gain on the cost of labour per unit by paying a higher rate to more experienced employees.

(e) Calculate the amount saved per unit by paying experienced labour at a higher rate.

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[3]





Each unit will require the following:

Direct labour rate will be as follows:

Selling prices are set to achieve a profit margin of 60%.

- (f)** Prepare a statement to show the total selling price for the customer's order.

[8]

(g) Advise Ameerah whether or not she should use marginal costing rather than absorption costing. Justify your advice.

[5]

[Total: 30]





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