



CANDIDATE
NAME

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CENTRE
NUMBER

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CANDIDATE
NUMBER

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9706/21

October/November 2020

1 hour 30 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. 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		(182 360)
		<u>92 140</u>
Add discounts received		<u>820</u>
Gross profit		92 960
Add bank loan		<u>4 200</u>
		<u>97 160</u>
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.

- 1 Ismail had taken goods for his own use. These goods cost \$420 and had a selling price of \$630.
- 2 Carriage inwards included capital expenditure of \$400 on non-current assets which had been paid on 18 January 2019.
- 3 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.
- 4 The amount shown for insurance included \$720 for the six-month period ending 30 April 2020.
- 5 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.
- 6 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.

REQUIRED

(c) Advise Ismail which of these options he should choose. Justify your answer.

[7]

Additional information

Ismail sees benefits in keeping a full set of accounting records.

REQUIRED

(d) State **four** benefits to a business of keeping a full set of accounting records.

1

2

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[4]

- 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			
1	Balance b/d	292.22	
1	Sales	927.40	
22	Tahir (credit transfer)	184.95	
23	Sales	841.67	
29	Sales	773.25	
31	Balance c/d	625.48	
		<u>3644.97</u>	
Oct	2	Z Ltd (cheque 626344)	118.48
	4	J Ltd (cheque 626345)	276.93
	5	Ayan (cheque 626346)	723.21
	6	P Ltd (direct debit)	334.80
	22	Huma (cheque 626347)	1206.22
	26	Usman (cheque 626348)	985.33
			<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.

Equity	\$000
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]

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
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- 2
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- [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 \$12 500 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]

(f) Recommend which option the directors should choose. Justify your answer.

This image shows a full page of a document template designed for handwriting practice or general note-taking. The page is white and features approximately 28 evenly spaced horizontal dotted lines extending across its width. These lines are intended to guide letter height and placement. In the bottom right corner, there is a small, square box containing the number '7', which likely indicates the page number of a multi-page set.

[Total: 30]

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