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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

7640780402

ACCOUNTING **9706/21**

Paper 2 Fundamentals of Accounting **October/November 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 [ ].

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1 The following balances were extracted from the books of T plc after the preparation of the statement of profit or loss for the year ended 31 December 2024.

	$
8% debentures (2025)	150 000
Bank overdraft	17 800
Furniture and equipment at carrying value	442 000
Inventory	57 300
Property at valuation	785 400
Trade and other payables	28 700
Trade and other receivables	33 400

Retained earnings include a draft profit figure of $104 800. However, it has been discovered that some errors had been made when preparing the statement of profit or loss.

1 The closing inventory had been overstated by $4500.

2 Distribution costs included the total cost of a 9-month advertising campaign for $32 400, which will end on 31 May 2025.

3 Furniture and equipment had been depreciated by 15% per annum using the reducing balance method instead of 20% per annum using the reducing balance method.

4 Debenture interest is payable every half year. No adjustment had been made for the payment due on 28 February 2025.

5 No provision had been made for taxation of $14 800.

(a) Calculate the revised profit for the year ended 31 December 2024.

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Draft profit	104 800

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Workings:

[7]

Additional information

1 On 1 August 2024, the directors had made a bonus issue of two ordinary shares for every three ordinary shares held at that date. The company policy is to maintain reserves in their most flexible form. Ordinary shares have a face value of $0.50 each.

2 On 1 October 2024, the directors had paid a dividend of $0.03 per share on all shares in issue at this date.

3 At 31 December 2024, the directors decided to revalue the property to $680 000.

(b) Complete the statement of changes in equity for the year ended 31 December 2024.

T plc
Statement of changes in equity for the year ended 31 December 2024

	Share capital $	Share premium $	Revaluation reserve $	Retained earnings $	Total $
At 1 January 2024		120 000	80 000	330 800	
At 31 December 2024	900 000				

Workings:

[7]

(c) Prepare the statement of financial position at 31 December 2024.

T plc
Statement of financial position at 31 December 2024

[9]

Additional information

The directors are considering two options of financing the redemption of debentures in 2025:

option A: make a new issue of 250 000 ordinary shares of $0.50 each at a premium of $0.10 per share

option B: make an issue of 8% debentures (2030).

(d) Advise the directors which option they should choose. Justify your choice by considering the advantages and disadvantages of **both** options.

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[Total: 30]

2 Reza owns a large retail business. As the business has many credit customers and credit suppliers, she was advised to maintain purchases ledger and sales ledger control accounts.

(a) Explain **two** benefits of maintaining control accounts.

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Additional information

Reza decides to maintain control accounts as a part of the double entry system.

On 1 January 2025, the balance of the purchases ledger control agreed with the total of balances in the purchases ledger of $23 420.

The following is a summary of transactions for January 2025.

	$
Payments to credit suppliers	21 470
Discounts received	283
Refund from a credit supplier resulting from an overpayment	45
Contra with sales ledger	236
Interest charged by a credit supplier on an overdue account	33
Purchases journal	22 711
Purchases returns journal	280

(b) Prepare the purchases ledger control account for January 2025.

Purchases ledger control account

Details	$	Details	$

[6]

Additional information

On 31 January 2025, the total of the balances in the sales ledger was $17 180. However, the balance on the sales ledger control account was different. The following errors have been discovered which account for this difference.

1 The balance of the sales ledger control account had been miscalculated. The total of the debit entries was $82 490, and the total of the credit entries was $65 550.

2 The total of the discounts allowed column in the cash book had been undercast by $90.

3 A credit note issued to a credit customer for $120 had been correctly entered in the book of prime entry but had been debited to the account of the customer as $210.

(c) Calculate an amended figure for **each** of the following:

(i) sales ledger total of balances

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(ii) sales ledger control account balance.

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[Total: 15]

3 The directors of N Limited use ratios to review the performance of the company.

The following details are available for the previous two years.

	Year ended 31 December **2024**	Year ended 31 December **2023**
Revenue	?	$560 000
Purchases	$343 000	$370 000
Cost of sales	$345 000	?
Gross profit margin	40%	35%
Inventory at 1 January	$38 000	?

(a) Calculate the opening inventory at **1 January 2023**.

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(b) Calculate the revenue for the year ended **31 December 2024**.

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(c) Calculate the closing inventory at **31 December 2024**.

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(d) Calculate the inventory turnover (**days**) for each of the years ended 31 December 2023 and 2024.

Year ended 31 December **2023**	
Year ended 31 December **2024**	

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Additional information

The directors wish to improve the inventory turnover (days) ratio.

One director has suggested reducing inventory levels.

(e) Identify **two** possible drawbacks which could result from this suggestion.

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(f) Identify **two** ways in which the inventory turnover (days) ratio could be improved **other than** by reducing inventory levels.

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[Total: 15]

4 B Limited uses absorption costing at one of its factories where two products are made: Wye and Zed.

The budgeted production for January 2026 is as follows:

	units	direct labour hours per unit
Wye	8000	2.5
Zed	14000	1.7

Budgeted overheads for January 2026 are $67890.

(a) Calculate, to **two** decimal places, the overheads to be absorbed by **one unit** of **each** product using the direct labour hour method.

Wye ....

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Zed ....

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(b) Calculate the **total** amount of overheads absorbed by each product if budgets are met.

Wye ....

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Zed ....

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

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Additional information

A customer has ordered 1200 units of product Zed for delivery in January 2026.

The following additional information is available about product Zed.

- One unit of product Zed requires direct materials costing $7.
- The direct labour rate is $11 per hour.
- The selling price of an order is set to achieve a profit margin of $33\frac{1}{3}$%.

(d) Calculate the **total** selling price for the order.

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Additional information

B Limited manufactures a single type of product at a second factory where marginal costing is used. The following budgeted information is available.

	per unit
selling price	$108
direct materials	2.5 kg at $15.50 per kg
direct labour	1.5 hours at $12 per hour

The company relies on one supplier who is currently only able to supply a limited quantity of direct materials. As a result, the factory is producing 14 000 units per month, which is 70% of normal capacity.

Currently, the supplier delivers direct materials 4 times each month. Each delivery incurs carriage charges of $4300.

Fixed costs per month are forecast to be $136 000 **including** carriage charges.

(e) Calculate the current profit **per month**.

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Additional information

The directors have contacted an overseas supplier of direct materials.

- The materials will cost $20 per kg, which **includes** carriage charges.
- The supplier will make one delivery of direct materials each month.

The overseas supplier is prepared to supply sufficient materials for B Limited to work at 90% of normal capacity.

(f) Prepare a marginal costing statement for **one month** if the directors use the overseas supplier.

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(g) Advise the directors whether or not they should purchase the direct materials from the overseas supplier. Justify your answer by discussing **both** financial **and** non-financial factors.

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[Total: 30]