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Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME			
CENTRE NUMBER		CANDIDATE NUMBER	

0015563305

ACCOUNTING **9706/23**

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 [ ].

This document has **20** pages. Any blank pages are indicated.

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1 Fazal and Naseem are in partnership. They own a retail business. The following information is available for the year ended 31 December 2024.

	Debit $	Credit $
Allowance for irrecoverable debts		310
Capital accounts		
Fazal		65 000
Naseem		55 000
Cash at bank		3 180
Cost of sales	36 790	
Current accounts		
Fazal	1 480	
Naseem		2 610
Drawings		
Fazal	11 700	
Naseem	14 300	
General expenses	3 310	
Inventory at 31 December 2024	17 900	
Loan from Fazal		8 000
Non-current assets		
cost	139 000	
provision for depreciation		31 000
Profit on disposal of a non-current asset		320
Rent	9 800	
Revenue		98 110
Staff wages	25 830	
Trade payables		7 380
Trade receivables	10 800	
	270 910	270 910

Additional information at 31 December 2024:

1 The account of a credit customer owing $320 is to be written off as irrecoverable.

2 The allowance for irrecoverable debts is to be maintained at 2.5% of trade receivables.

3 No entries have been made for 8% interest per annum on Fazal's loan. The loan from Fazal was made on 1 October 2024 and is repayable in 2028.

4 Rent is charged at $2100 for three months and is payable in advance. Rent has been paid until 28 February 2025.

5 Staff wages of $810 are owing.

6 Non-current assets are to be depreciated at 20% per annum using the straight-line method.

(a) Prepare the statement of profit or loss for the year ended 31 December 2024. Use the space provided on **page 4** to show your workings.

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

Workings:

[9]

Additional information

The partners share profits and losses equally after providing for:

1 interest on drawings of 5% per annum

2 an annual salary of $8000 for Naseem.

(b) Prepare **each** partner's current account for the year ended 31 December 2024. Dates are **not** required.

Current accounts

Details	Fazal $	Naseem $	Details	Fazal $	Naseem $

Workings:

[5]

(c) Prepare the **equity and liabilities section** of the partnership's statement of financial position at 31 December 2024.

Fazal and Naseem
Statement of financial position at 31 December 2024

Equity and liabilities

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Additional information

The partners wish to improve the performance of their business. They are considering two options.

Option A: Change to a new supplier of goods for resale.

The new supplier is prepared to offer a large trade discount if orders are made in bulk. It is expected that this will increase the gross profit margin to 70% with revenue remaining unchanged on current levels.

Option B: Move their premises to a more central location.

The rent of the new premises will be 15% more than the current annual payment. The partners believe they can increase demand by 17.5%.

(d) Calculate the effect on annual profits of **each** option.

(i) Option A

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(ii) Option B

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(e) Advise the partners which option they should choose. Justify your choice by discussing **both** the advantages **and** disadvantages of **each** option.

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[Total: 30]

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2 A trainee accountant recently produced the financial statements for a business for the year ended 31 December 2024. However, the following errors were discovered.

Error	
1	A motor vehicle purchased on 1 January 2023 for $24 000 should have been depreciated by 20% using the reducing balance method. However, the trainee accountant had decided to change the depreciation method to 20% using the straight-line method as it was easier to calculate.
2	The owner of the business had taken goods, with a sales price of $840, for own use. This had **not** been recorded in the books of account.
3	Non-current assets included some equipment with a carrying value of $6200 which will be used in the business for the foreseeable future. However, the equipment had been written down to show its current resale value of $3600.
4	At the end of the financial year, a customer had placed an order for goods with a selling price of $660. The order had been recorded as a sale in the books of account.

The business sells all goods with a mark-up of 20%. The draft profit for the year ended 31 December 2024 was $36 960.

(a) Complete the table to identify and describe the accounting concept which has been ignored in **each** of the errors.

Error	Accounting concept ignored	Description
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2		
3		
4		

[8]

Additional information

The owner of the business wishes to correct the errors that the trainee accountant has made.

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

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Draft profit	36 960

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Additional information

The business has a highly skilled workforce, and the owner is of the opinion that this asset should be reflected in the statement of financial position.

(c) State which accounting concept should be applied when deciding whether or not to record this asset in the statement of financial position.

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[Total: 15]

3 On 1 April 2024, the following balances appeared in the books of P plc.

	$
Issued share capital: ordinary shares of $1 each	?
Share premium	60 000
Revaluation reserve	55 000
Retained earnings	300 200

During the year ended 31 March 2025, the following occurred:

1 May 2024	Made a bonus issue of one ordinary share for every two ordinary shares held at this date. It was decided that reserves should be left in their most flexible form.
1 June 2024	Property was revalued downwards by $72 000.
1 September 2024	Paid a final dividend of 7.5% on all shares in issue at this date.
1 January 2025	Made a new issue of 120 000 ordinary shares at a premium of $0.20 per share.
31 March 2025	The profit for the year ended on this date was $125 400.

The share capital at 31 March 2025 was 840 000 ordinary shares of $1 each.

(a) Calculate the number of issued ordinary shares at 1 April 2024.

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(b) Prepare the following ledger accounts to record the transactions during the year ended 31 March 2025.

Share premium account

Date	Details	$	Date	Details	$

Retained earnings account

Date	Details	$	Date	Details	$

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(c) State **three** factors that directors should consider when deciding the amount to be paid as a final dividend.

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[Total: 15]

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4 V Limited is a manufacturing company which uses absorption costing at one of its factories.

(a) Explain **two** differences between marginal costing and absorption costing.

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Additional information

At one of its factories, V Limited has two production departments: cutting and assembly. There are also two service departments: maintenance and stores.

All budgeted overheads for the year ended 30 September 2025 have been allocated to departments as follows:

		Production departments		Service departments	
	Total $	Cutting $	Assembly $	Maintenance $	Stores $
Overheads allocated	178830	77850	51330	27150	22500

The following additional budgeted information is available about the departments.

	Production departments		Service departments	
	Cutting	Assembly	Maintenance	Stores
Issues from stores	480	330	90	-
Number of machines	37	23	-	-

(b) Complete the table to show the reapportionment of service department overheads.

		Production departments		Service departments	
	Total $	Cutting $	Assembly $	Maintenance $	Stores $
Overheads allocated	178 830	77 850	51 330	27 150	22 500

[4]

Additional information

The following forecast information is available for the two production departments for the year ended 30 September 2025.

	Cutting	Assembly
Labour hours	6300	7855
Machine hours	8140	5020

(c) Calculate, to **two** decimal places, the overhead absorption rates for **each** department for the year ended 30 September 2025.

Cutting department	
Assembly department	

[4]

Additional information

For the year ended 30 September 2025, actual results for the assembly department were as follows:

Total overheads	$65 600
Labour hours	6050
Machine hours	5620

(d) Calculate the over-absorption or under-absorption of overheads for the assembly department for the year ended 30 September 2025.

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Additional information

An order was received from a customer in August 2025. The following information is available.

Direct costs (material and labour)	$1450
Labour hours	
Cutting department	138
Assembly department	152
Machine hours	
Cutting department	197
Assembly department	161

Products are sold with a gross profit margin of 40%.

(e) Calculate the selling price of the order.

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Additional information

V Limited uses marginal costing at **another** factory where a single type of product is made.

The following budgeted information is available.

	$
Selling price per unit	32
Variable costs per unit	25

Fixed costs per month are $48 000.

Currently, the monthly production and sales are 7200 units which is 60% of normal capacity. However, demand for the product has been falling in recent months.

The directors have received an enquiry from an overseas customer who is located in a new market area.

1 The customer would make an order for 1500 units.

2 The customer would pay a reduced price of $29 per unit.

3 V Limited would incur delivery charges of $375 on the order.

(f) Calculate the profit or loss which would be made on the order from the overseas customer.

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(g) Advise the directors whether or not they should accept the order from the overseas customer. Justify your answer by discussing **both** the advantages **and** disadvantages of accepting the order.

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(h) Explain the key principle of the just in time (JIT) method of inventory control.

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[Total: 30]