



CANDIDATE NAME

Script B

CENTRE NUMBER

CANDIDATE NUMBER

ACCOUNTING

Paper 2 Structured Written 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. You may use an HB pencil for any diagrams or graphs.
- 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 a calculator.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 100.
- The number of marks for each question or part question is shown in brackets [].
- Where you are asked to complete a layout, you may not need all the lines for your answer.

This document has 20 pages. Blank pages are indicated.



- 1 Amara maintains a petty cash book using the imprest system. The imprest amount of \$200 is restored on the first day of each month. On 1 January 2020 Amara had a balance of \$65 in her petty cash.

All payments of less than \$100 are made from petty cash.

On 1 January 2020, Amara owed \$85 to Razvan, a credit supplier.

Amara provided the following information for January 2020.

- January 1 / The petty cash imprest was restored from the business bank account.
- 3 / Purchased stationery for cash, \$24.
- 7 / Paid travelling expenses, \$49
- 14 / Paid Razvan the amount outstanding on his account
- 19 / Purchased goods on credit from Razvan, \$200 less 10% trade discount
- 22 / Paid taxi fare, \$18
- 28 / Returned goods to Razvan which had been purchased on 19 January, list price \$40
- 29 / Paid postage, \$11

REQUIRED

- (a) Prepare Amara's petty cash book for the month of January 2020, on the page opposite.

Balance the petty cash book and bring down the balance on 1 February 2020.



Amara
Petty Cash Book

Total received \$	Date	Details	Total paid \$	Travel \$	Postage and stationery \$	Ledger accounts \$
65	2020 Jan 1	Balance b/d				
135	1	Bank	24		24	
	3	Stationery	19	49		
	7	Travelling Expenses	85			85
	14	Razvan	18	18		
	22	Taxi Fare	26			26
	28	Razvan (Returns)	11		11	
	29	Postage	13			
	31	Balance c/d	200	67	35	85
200						
13	Feb 1	Balance b/d				
187	1	Bank				

[10]



Amara's supplier, Razvan, maintains a full set of accounting records.

REQUIRED

(b) Prepare the account of **Amara** as it would appear in the ledger of Razvan.

Balance the account and bring down the balance on 1 February 2020.

Razvan
Amara account

Date 2020	Details	\$	Date 2020	Details	\$
Jan 1	Balance b/d	85	Jan 14	Bank	85
19	Sales	180	28	Sales Returns	36
	Dis. Discount	20		Discount	4
			31	Balance c/d	160
		285			285
Feb 1	Balance b/d	160			

[6]

On 2 February 2020 Amara paid the balance due to Razvan. She deducted cash discount of 2%.

REQUIRED

(c) Complete the following table by placing a tick (✓) in the correct column to show how **Razvan** should record the cash discount. Where an account has no entry, tick 'no entry'.

	debit	credit	no entry
Amara account		✓	✓
Discount allowed account	✓		
Discount received account			✓

[2]

Amara usually pays Razvan by cash or cheque.

REQUIRED

(d) State **two other** methods which Amara could use to pay Razvan from her bank account.

- 1 Direct Debit
- 2 Standing Order

[2]

[Total: 20]



2 GHB Limited maintains a full set of accounting records and prepares monthly control accounts.

The following information was provided for November 2019.

	\$
Purchases ledger control account balance at 1 November	?
Totals for November:	
C D Purchases journal PLL	14200
D A Purchases returns journal PLL	1160
Cash purchases —	5390
Commission receivable —	2110
D Cash discount received PLL	650
Cash discount allowed —	710
D Cheques paid to trade payables PLL	11420
D Sales ledger contras PLL	250
D Interest charged by trade payables PLL	95
L Cheque refunds from trade payables PLL	330
D Purchases ledger control account balance at 30 November PLL	13195

REQUIRED

(a) Prepare the purchases ledger control account for GHB Limited for November 2019.

Balance the account on 30 November 2019 and bring down the balance on 1 December 2019.

GHB Limited
Purchases ledger control account

Date 2019	Details	\$	Date 2019	Details	\$
Nov 30	Purchases Returns	1160	Nov 30	Purchases Returns	1160
	Discount Received	650			
	Purchases	14200	Nov 1	Balance b/d	10940
	Bank	11420	30	Purchases	14200
	Contra Entry	250		Bank (Refunds)	330
	Interest	95		Contra	250
	Balance c/d	13195		Interest	95
		26120		Discount Received	650
					26120
			Dec 1	Balance b/d	13195



A delivery vehicle was purchased by cheque during November 2019.

REQUIRED

(b) State two reasons why the purchase of the delivery vehicle was **not** recorded in the purchases ledger control account.

1 This is because delivery vehicle is a non-current asset.

2 Purchases ~~account~~ records ledger control account records only the purchases made of goods and services on credit [2]

(c) (i) State the most appropriate method of depreciation for the new delivery vehicle.

~~Reduce Straight~~ Reducing Balance Method. [1]

(ii) State three reasons for your answer to (c) (i).

1 The ^{worth} ~~value~~ of the delivery vehicle would differ year to year.

2 The amount depreciated would change with the manner the vehicle is used.

3 ~~It is more~~ Gives a better idea of the useful period of the delivery vehicle. [3]



The directors of GHB Limited are planning to finance a major expansion of the fleet of delivery vehicles. \$250 000 will be required for this expansion. The directors are considering whether to issue additional ordinary shares or to obtain a long-term bank loan.

REQUIRED

(d) Advise the directors which of these two methods of finance is more appropriate.

Justify your answer with **one** advantage and **one** disadvantage of **each** option.

~~Issue of ordina~~ Additional issue of ordinary share will for sure allow GHB limited to obtain the finance worth \$250000. This will allow GHB to obtain ~~financ~~ ^a fianance without paying and will not have to repay it. Though, GHB limited's directors may loose control over their business. A bank loan will allow them to obtain the fianance and is also secure. Though, interest will have to be paid every year and the loan has to be repaid. Comparing the advantages and ~~disa~~ disadvantages, GHB limited should issue additional ordinary shares to obtain \$250000 for the new [5] vehicle.

[Total: 20]



3 Tia and Sarna are partners in a trading business.

Their trial balance at 31 December 2019 was as follows:

Tia and Sarna
Trial Balance at 31 December 2019

	debit	credit
	\$	\$
IS Revenue		124 000
IS Inventory at 1 January 2019	5390	
IS Purchases	55 440	
IS Discount allowed Exp	2 400	
IS Discount received Inc		1 385
IS Carriage outwards Exp	6 160	
IS Insurance — 12 Exp	7 920	
IS General expenses Exp	8 100	
IS Wages Exp	8 600	
IS Trade receivables (PDD)	11 590	
Trade payables		6 051
IS Bank	8 136	
Premises at cost Exp	90 000	
Furniture at cost Dep Exp	24 000 - 20%	
Provision for depreciation on furniture		5 600
Capital accounts		
Tia		80 000
Sarna		40 000
Current accounts		
Tia		2 100
Sarna		1 600
Drawings		
Tia	15 000	
Sarna	17 000	
	<u>260 736</u>	<u>260 736</u>

Additional information

1 Inventory at 31 December 2019 was valued at \$5165.

2 Depreciation on furniture is to be charged at 20% per annum using the straight-line method.

3 The insurance includes a payment of \$2160 for the 12 months from 1 July 2019 to 30 June 2020.

4 The partnership agreement provides for
interest on capital of 5% per annum
a salary to Tia of \$6000 per annum
residual profits and losses to be shared equally





REQUIRED

(a) Prepare the income statement for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna
Income Statement for the year ended 31 December 2019

	\$	\$
Revenue		124000
Cost of sales:		
Opening Inventory	5390	
Purchases	5540	
	60830	
Closing Inventory	(5165)	55665
Gross Profit		68335
Add: Income = Discount Received	1285	1285
		69720
Less: Expenses		
Discount Allowed	2400	
Carriage Outwards	6160	
Insurance $(9600 - (2160 \times \frac{1}{12}))$	8520	
General Expenses	8100	
Wages	9600	
Provision for depreciation on furniture $(\frac{20}{100} \times 24000)$	4800	29680
Profit for the year (Net Profit)		20140

[8]



(b) Prepare the appropriation account for Tia and Sarna for the year ended 31 December 2019.

Tia and Sarna
Appropriation Account for the year ended 31 December 2019

	\$	\$
Profit for the year		20140
Less: Expenses		
Interest on capital -		
Tia - $(\frac{5}{100} \times 25000)$	1250	
Sarna - $(\frac{5}{100} \times 40000)$	2000	
Partners' Salary -		
Tia -	6000	(12250)
Residual Profit		17890
Profit Share:		
Tia $(\frac{1}{2} \times 17890)$	8945	
Sarna $(\frac{1}{2} \times 17890)$	8945	(17890)

[4]

(c) Prepare the current account for Sarna for the year ended 31 December 2019. Balance the account and bring down the balance on 1 January 2020.

Tia and Sarna
Sarna current account

Date	Details	\$	Date	Details	\$
2019 Dec 31	Drawings	17000	2019 Dec 31	Balance c/d	1600
				Interest on capital	2000
				Profit share	8945
				Capital a/c	6255
		17000			17000
2020 Jan 1	Balance b/d	1600			

[4]



Tia and Sarna are considering transferring \$7000 from the business bank account to an interest-bearing deposit account.

REQUIRED

- (d) Advise the partners whether or not they should make this transfer. Justify your answer by providing advantages and disadvantages.

If Tia and Sarna make this transfer, they will be able to earn an interest on \$7000 which will increase their incomes. This will also allow them to save money. Though, their working capital may reduce and they might find it difficult to pay their trade payables when due. But, in the longer run, this will be beneficial and Tia and Sarna should transfer \$7000 from the business bank account to an interest bearing deposit account. [4]

[Total: 20]





4. Arjun is a sole trader.

Arjun prepared a trial balance on 31 January 2020. The totals of the debit and credit sides differed. This difference was placed in a suspense account.

Arjun later discovered the following errors.

- 1 The total of the discount received column in the cash book for January, \$135, had been credited to the commission receivable account.
- 2 \$200 received from the sale of fittings (net book value \$150) had been correctly debited but had been credited to the fixtures and fittings account.
- 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account.
- 4 The total of the analysis column for cleaning in the petty cash book, \$73, had been transferred to both the cleaning account and the office expenses account.
- 5 The purchase of equipment, \$575, had been credited to the equipment repairs account. The bank account had been correctly credited.
- 6 No entries had been made for a cheque payment for office expenses, \$90.
- 7 A cheque, \$69, paid to Simone had been posted to the account of Simon.



REQUIRED

(a) Prepare journal entries to correct errors 1, 2 and 3.

Narratives are required.

Arjun
Journal

Error number	Details	Debit \$	Credit \$
1	Commission receivable a/c	135	
	Discount received a/c	135	
	Suspense a/c		270
	(The wrong entry made into commission receivable a/c was ^{corrected})		
2	Bank a/c	50	
	Fixtures and fittings a/c Suspense a/c	150	
			200
	(The wrong entry in fixtures and fittings account was rectified)		
3	Purchases a/c	40	
	Suspense a/c		40
	(The miss wrong entry on purchases account was corrected)		

[9]



(b) Prepare the suspense account. Include the original difference on the trial balance, as a balancing figure.

Arjun
Suspense account

Date	Details	\$	Date	Details	\$
2020 Jan 31	Balance 135	510	2020 Jan 31	Commission Receivable	135
				Discount Received	135
				fitting	
				Sale of fixtures and	200
				Purchases	40
		510			510

[4]

(c) Complete the following table by placing a tick (✓) in the correct column to indicate how each of the errors would affect Arjun's capital.

The first one has been completed as an example.

Ignore depreciation of non-current assets.

Error number	Increases capital	Decreases capital	No effect on capital
3	✓		
4			✓
5	✓		
6		✓	
7			✓

[4]



(d) State three advantages to Arjun of operating as a sole trader.

1 Profits will not have to be shared.

2 Can work as per his own convenience.

3 Can take a leave whenever he wants.

[3]

[Total: 20]





5 Adit provided the following information.

For the year to 31 January 2020

Profit for the year	27 900
Revenue	186 000
Credit purchases	93 075

At 31 January 2020

Non-current assets at book value	43 700
Inventory CA	9 340
Trade receivables CA	14 010
Trade payables LL	9 435
Bank overdraft LL	2 240
Bank loan (repayable 2023)	6 000

All goods are sold on credit terms.

REQUIRED

(a) Calculate the following ratios. Show your workings.

profit margin	
workings	answer
$\frac{27\,900}{186\,000} \times \frac{100}{1}$	15.00% 15%
Formula = $\frac{\text{Profit for the year}}{\text{Revenue}} \times \frac{100}{1}$	

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Payables}}{\text{Credit Purchases}} \times \frac{365}{1}$	37.00 <u>37 days</u>
$\frac{9\,435}{93\,075} \times 365 = 37.00$	



trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Receivables} \times 365}{\text{Credit Sales}}$ $= \frac{14010 \times 365}{186000} = 27.49 = 28$	$\underline{28 \text{ days}}$

liquid ratio	
workings	answer
$\frac{\text{Total Assets} - \text{Inventory}}{\text{Current Liabilities}}$ $= \frac{(4010 + 9340) - 9340}{(9435 + 2240)}$	$\underline{1:2:1}$

[8]

The bank overdraft limit is \$2500.

The trade payables turnover for the year to 31 January 2019 was 35 days.

REQUIRED

- (b) Advise Adit whether or not he should delay paying trade payables in order to reduce the bank overdraft. Justify your answer by considering the effect on **both** the bank balance and the trade payables.

Delaying the payments to trade payables will lead to increased liabilities overall but will ~~increase~~ decrease the overdraft. As the overdraft limit is not yet reached, Adit ~~should~~ ^{may} continue paying his trade payables. But, as he has already spent \$2240 out of \$2500, he ~~can~~ ^{should} delay the payments in order to reduce the overdraft. But, the consequence may be that the trade payable may charge interest on overdue accounts and will increase the expenses.

[5]





(c) Suggest three other actions which Adit could take to reduce the bank overdraft.

- 1 Delay payments to trade payables Obtain a bank loan
- 2 Request the trade payables & receivables to pay early.
- 3 Reduce sale of goods on credit. Increase cash sales.

[3]

(d) (i) State two reasons why Adit should produce an annual income statement.

- 1 To know the profit or the loss for the year.
- 2 To know what changes could be made in order to increase profits.

[2]

(ii) State two reasons why Adit should apply the money measurement principle.

- 1 It gives the worth of the business in monetary terms, making decision making easier.
- 2 Gives a clear idea on the financial position of the business.

[2]

[Total: 20]

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