



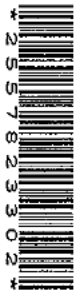
CANDIDATE
NAME

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CENTRE
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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	85			85
135	1		24		24	
	3	Stationery a/c	49	49		
	7	Travelling expense a/c	180			180
	19	Research a/c	18	18		
86	22	Taxi fare a/c				
36	28	Purchase returns a/c				
	29	Postage a/c	11		11	25
			367	67	35	255
	31	Balance c/d	49			
236	2020 Feb 1		236			
49		Balance b/d				
187	1	Cash				

[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	Details	\$	Date	Details	\$
<u>2020</u>			<u>2020</u>		
Jan 1	Balance b/d	85	Jan 28	Sales returns a/c	36
14	Sales a/c	85	14	Bank a/c	85
19	Sales a/c	180	31	Balance c/d	144
		<u>265</u>			<u>265</u>
<u>2020</u>					
Feb 1	Balance b/d	144			

[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 Bank transfer
- 2 Direct debit

[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	?	<i>cr</i>
Totals for November:		
Purchases journal <i>cr</i>	14200	
Purchases returns journal <i>dr</i>	1160	
Cash purchases	5390	
Commission receivable	2110	
Cash discount received <i>dr</i>	650	
Cash discount allowed	710	
Cheques paid to trade payables <i>dr</i>	11420	
Sales ledger contra <i>dr</i>	250	
Interest charged by trade payables <i>cr</i>	95	
Cheque refunds from trade payables <i>cr</i>	330	
Purchases ledger control account balance at 30 November	13195	<i>dr</i>

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	Details	\$	Date	Details	\$
<u>2019</u>	<u>2019</u>
Nov 31	Purchase returns <i>cr</i>	1160	Nov 1	Balance b/d	12050
31	Discount received	650	31	Purchases <i>cr</i>	14200
31	Bank <i>cr</i>	11420	31	Interest charged	95
31	Contra entry	250	31	Refunds	330
31	Balance b/d	13195			
		-----			-----
		<u>26675</u>			<u>26675</u>
			<u>2019</u>		
			Dec 1	Balance b/d	13195

26675

[9]



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 It might be purchased by cash due to prompt payment.

2 It might not be purchased on credit so it won't be recorded in purchase ledger control account. [2]

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

Straight line method. [1]

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

1 Straight line method is charged on the cost of the non current asset.

2 Prudence is applied, so non current assets are not overstated.

3 It does not let profit for the year to be overstated. [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.

Ordinary shareholders can attend the meeting of Board of directors and it is a source of finance for expansion. Ordinary share do not have a fixed rate and it is not repaid if the company is winding up. long term bank loan can help in expansion which spreads risk and it leads to diversification. However a long term bank loan may have high rate of interest and a collateral is sold off if the long term loan is not repaid.

[5]

[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
	\$	\$
Revenue <i>CT</i>		124 000
✓ Inventory at 1 January 2019 <i>COB</i>	5 390	
Purchases <i>COB</i>	55 440	
Discount allowed <i>EXP</i>	2 400	
Discount received <i>Income</i>		1 385
Carriage outwards <i>EXP</i>	6 160	
✓ Insurance <i>EXP</i>	7 920 <i>+ 2160</i>	
General expenses <i>EXP</i>	8 100	
Wages <i>EXP</i>	9 600	
Trade receivables	11 590	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
✓ Furniture at cost <i>(2800)</i>	24 000	
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	
	260 736	260 736

Additional information

- 1 Inventory at 31 December 2019 was valued at \$5165. *COB*
- 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
less cogs		
opening inventory	5390	
Purchases	55440	
less closing inventory	<u>(5165)</u>	<u>(55665)</u>
Gross profits		68335
Add Income		
Discount Received	<u>1385</u>	1385
less expenses		
Discount Allowed	2400	
Carriage outwards	6160	
Insurance (7920 + ¹⁰⁸⁰ 360) 8370	9000 8220	
General expenses	8100	
Wages	9600	39930
Depreciation - furniture (20% x 24000)	<u>4800</u>	40060 <u>(39240)</u>
Profit for the year		29660 <u>30290</u>
.....		30290
.....		
.....		

[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		30380
Add interest on Drawings		2980
less interest on capital - Tia	4000	
Sarna	<u>2000</u>	(6000)
less partners salary - Tia		(6000)
Profit for the year Residual profit		9090
Profit share - Tia	4520	18380
Sarna	<u>9190</u>	<u>9090</u>
		<u>18380</u>

[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	\$
<u>2019</u>			<u>2019</u>		
Dec 31	Drawings 9/16	17000	Dec 31	Balance b/d	1600
			31	Interest on capital	2000
			31	Part Profit share	9190
			31	Balance c/d	<u>4210</u>
<u>2020</u>		<u>17000</u>			<u>17000</u>
Jan 1	Balance b/d	4210			

[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.

Tia and Sarna will have ~~to~~ pay low rate of interest which reduces their cash outflow. However, The interest rates may vary depending on the amount of loan transferred so it is unreliable.

.....

.....

.....

.....

.....

.....

.....

.....

[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.

WE	RE	LE	Rectified
Suspense 135	Commission Receivable 135	Total Suspense 135	
Commission 135	Suspense 135	Discount Received 135	
Bank 200	Suspense 50	Bank 200	
PRF 150	PRF 150	Sale of Fix 200	
Suspense 50	Bank 200	Drawings 40	
Purchase 40	Cash 40	Cash 40	
40	Purchase 40	Petty cash 73	
Cleaning 73		Suspense 73	
Office 73		Office exp 90	
Suspense 73		Bank 90	



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
	(Total of discount received column was credited to commission receivable a/c)		
2.	Bank a/c	50	
	suspense a/c		50
	(\$200 received from sale of fixtures & fittings)		
2.	Suspense a/c	50	
	Fixtures & fittings a/c		50
	(\$200 received from sale of fittings had been credited to fixtures & fittings a/c)		
3.	Drawings a/c	40	
	Purchase a/c		40
	(cash drawings had been credited to purchase a/c)		

[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	\$
<u>2020</u>			<u>2020</u>		
Jan 31	Fixtures & fittings	50	Jan 31	Balance c/d	50
		<u>50</u>			<u>50</u>
Feb	Balance b/d	50			

[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. No profits are shared.
2. No chances of disagreements.
3. Arjun can have complete control on the firm and he can have close contact with customers. [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	9 340
Trade receivables	14 010
Trade payables	9 435
Bank overdraft	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
$\frac{\text{Profit for the year}}{\text{Sales}} \times 100 \quad \left \quad \frac{27900}{186000} \times 100 = 15\%$	15%

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade payables}}{\text{Credit purchases}} \times 365 \quad \left \quad \frac{9435}{93075} \times 365 = 37$	37 days



trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade receivables}}{\text{Sales}} \times 100 \quad \left \quad \frac{14010}{186000} \times 365 = 27.49$	28 days

liquid ratio	
workings	answer
$\frac{\text{CA} - \text{Inventory}}{\text{CL}} = \frac{23350 - 9340}{9435 + 2240} = 1.2:1$ $\frac{23350 - 9340}{11675} = 1.2:1$	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.

If Adit delays his payment then ~~his~~ it will damage his relationship with his supplier and they won't supply goods in future. However, if his overdraft reduces then he will pay less interest on the overdrawn amount and he will have to repay less amount. His cash outflow will reduce.

[5]





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

- 1. Set a limit on the amount that can be withdrawn from the bank account.
- 2. Increase the rate of interest on the overdrawn amount.
- 3. ~~Impose restrictions on the bank overdraft~~ Reduce money supply. [3]

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

- 1. He can identify his gross profits and cost of goods sold.
- 2. He can identify the profit for the year. [2]

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

- 1. so that he can record only those items which is related to money.
- 2. It makes the preparation of financial statement easier. [2]

[Total: 20]

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