



CANDIDATE  
NAME

# Script D



CENTRE  
NUMBER

CANDIDATE  
NUMBER

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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.

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### 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.

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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 *Sales a/c  
Amara a/c*
- 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 \$
35 <del>35</del> 65	2020 Jan 1	balance b/d	85			
	Jan 3	Stationery	24		24	
	Jan 7	Travelling expenses	49	49		
	Jan 19	Razvan (Purchases)	180			<del>20</del> 180
	Jan 22	Taxi fare	18	18		
40	Jan 28	Razvan (Purchase Returns)				
	Jan 29	Postages	<del>11</del>		11	
290	Jan 31	balance c/d				
<u>367</u>			<u>367</u>	<u>67</u>	<u>35</u>	<u>180</u>
	2020 Jan 1	balance b/d	<del>20</del> 290			

[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  
R dr  
A .

Date	Details	\$	Date	Details	\$
2020			2020		
Jan 19	<del>Sales Return</del>	<del>50</del>	Jan 19	<del>Sales Return</del>	<del>50</del>
	balance b/d	85		balance b/d	70
	<del>balance b/d</del>	<del>85</del>			
Jan 19	Bank Sales	15 180	Jan 19	Bank	15 015
	discount allowed	10		balance c/d	
<del>Jan 31</del>	<del>balance c/d</del>	<del>220</del>	Jan 31	<del>discount allowed</del>	<del>10</del> 220
		275			275
2020			2020		
Jan 1	balance b/d	220	Jan 1	<del>balance b/d</del>	<del>220</del>

[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 Issue credit note.
- 2 By offering cash discounts.

[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:	
<del>Purchases journal</del>	<del>14200</del>
<del>Purchases returns journal</del>	<del>1160</del>
Cash purchases	5390
Commission receivable	2110
<del>Cash discount received</del>	<del>650</del>
Cash discount allowed	710
<del>Cheques paid to trade payables</del>	<del>11420</del>
<del>Sales ledger contra</del>	<del>250</del>
<del>Interest charged by trade payables</del>	<del>95</del>
<del>Cheque refunds from trade payables</del>	<del>330</del>
Purchases ledger control account balance at 30 November	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	Details	\$	Date	Details	\$
2019	.....	.....	2019	.....	.....
Nov 31	Purchases Returns	1160	Nov 1	balance b/d	12050
	discount received	650	Nov 31	Purchase Returns	14200
	Bank	11420		Interest charged	95
	contra	250		bank refunds	330
	balance c/d	13195			
		<u>26675</u>			<u>26675</u>
			2019		
			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 ... Because it is a non-current asset. .... [2]
- 2 ... Because it loses its value overtime. .... [2]

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

... Straight line method / ~~Reducing balance method~~ ... [1]

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

- 1 ... It is consistent as every year, the depreciation charged is same. ....
- 2 ... Can identify the cost of vehicle over its useful life. ....
- 3 ... Profits and current assets will not 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.

If directors consider to issue additional ordinary shares so there will be no prior claims on the profit. Interest would not be charged. There is no fixed date of repayment as they are the members of the company.

If directors consider to issue long-term loans so there will be a disadvantage that it will only be paid if there will be a profit. Interest must be charged on payment if not done on time as they are not members of the company (i.e. debentures). Debentures are also called long-term liabilities.

[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		124 000
<del>Inventory at 1 January 2019</del>	5 390	
<del>Purchases</del>	55 440	
<del>Discount allowed</del> <i>exp</i>	2 400	
<del>Discount received</del> <i>inv</i>		1 385
<del>Carriage outwards</del> <i>exp</i>	6 160	
<del>Insurance</del>	7 920	
<del>General expenses</del>	8 100	
<del>Wages</del>	9 600	
<del>Trade receivables</del>	11 590	
<del>Trade payables</del>		6 051
<del>Bank</del>	8 136	
<del>Premises at cost</del>	90 000	
<del>Furniture at cost</del>	24 000	
<del>Provision for depreciation on furniture</del>		5 600
Capital accounts		
Tia		80 000
Sarna		40 000
Current accounts		
Tia		2 100
Sarna		1 600
<del>Drawings</del>		
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

Details	\$	\$
Revenue		124000
<u>cost of sales</u>		
Opening inventory	5390	
Purchases	<u>55440</u>	
	60830	
Less closing inventory	<u>5165</u>	<u>55665</u>
Gross profit		68335
Discount received		<u>1385</u>
		69720
<u>Expenses</u>		
Depreciation on furniture (25000 x 2%)	4800	
Carriage outwards	6160	
Discount allowed	2400	
General expenses	8100	
wages	9600	
Insurance (180 x 6)	<u>1080</u>	<u>32140</u>
Profit for the year		<u>37580</u>

[8]

+ Int. on ad,  
- Int. on cap,  
- Salary



(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		37580
Less interest on capital - Tia	4000	
Sarna	<u>2000</u>	6000
Less <del>star</del> salary - Tia		<u>6000</u>
Residual profit		25580
Profit share - Tia	12790	
Sarna	<u>12790</u>	<u>25580</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.

On next page

} Tia and Sarna  
} Sarna current account

Date	Details	\$	Date	Details	\$
2019 <del>2020</del> Jan 1	balance b/d	1600	2019	<del>balance b/d</del>	1600
Jan 31	Drawings - <del>Tia</del> - sama	<del>15000</del> 17000	Jan 31	<del>balance b/d - Tia</del> - sama	<del>2100</del> 1600
			Jan 31	Interest on capital	
				<del>Tia</del>	<del>1000</del>
				Sarna	2000
				<del>Salary - Tia</del>	<del>6000</del>
				Profit share	12790
				balance c/d	3810
		<del>18600</del> <del>18600</del>			<del>7210</del> <del>3010</del> 18600
2020 Jan 1	balance b/d	<del>18600</del> <del>2210</del> 3810			<del>18600</del> <del>22000</del> 19800

[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 partners made a transfer so their profits may raise as bank is gonna charge an interest bearing deposit account. It charges ~~to~~ on how much capital a particular partner has made invested. If one of a partner did not invested so this may be a loss of that particular partner as no capital invested means no interest on it and no profit.

[4]

[Total: 20]

3)c)

Tia and Sarna  
Sarna current account

DATE	Details	₹	DATE	Details	₹
2019 Jan 31	balance b/d Drawings	1600 17000	2019 <del>Jan 31</del> Dec 31	balance b/d Int on capital Profit share balance c/d	1600 2000 12790 3810
		18600			18600
2020 Jan 1	balance b/d	3810			



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. *CRA dr. dr. dr. suspense a/c*
- 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. *P & A dr. bank dr. sales suspense*
- 3 Cash drawings, \$40, had been correctly debited but had been credited to the purchases account. *P. dr. cash drawings. suspense.*
- 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 account	135	
	Discount received	135	
	Suspense account		270
	(Commission receivable account wrongly credited)		
2	Fixtures and fittings account	<del>200</del> 50	
	Cash/Bank	<del>200</del> 50	
	Suspense account		<del>400</del> 100
	(Fixtures and fittings account wrongly credited)		
3	Purchases account	40	
	Cash drawings	40	
	Suspense account		80
	(Purchases account wrongly credited)		

[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	balance c/d		2020		
Jan 31	balance c/d	450	Jan 31	commission receivable	135
				discount received	135
				fixtures & fittings	50
				cash / bank	50
				purchases	90
				cash drawings	90
		450			450
			2020 Feb 1	balance b/d	450

[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 are not shared.

2 Own boss.

3 can take decisions easily.

[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
<del>Credit purchases</del>	93 075

At 31 January 2020	
Non-current assets at book value	43 700
<del>Inventory</del>	9 340
<del>Trade receivables</del>	14 010
<del>Trade payables</del>	9 435
<del>(Bank overdraft)</del>	<u>2 240</u>
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
$\text{Profit margin} = \frac{\text{gross profit}}{\text{Revenue}} \times 100$ $= \frac{(R - \text{COS})}{186000} \times 100 = \frac{102270}{186000} \times 100 = 54.98$ $GP = 186000 - (93075 + 9345)$	<u>54.98</u>

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Payables}}{\text{credit purchases}} \times 365$ $\frac{9435}{93075} \times 365 = \underline{37 \text{ days}}$	<u>37 days</u>



trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade Receivables}}{\text{Credit sales}} \times 365$ $\frac{14010}{186000} \times 100 = 27.49 \text{ days}$ $\approx \underline{28 \text{ days}}$	$\underline{28 \text{ days}}$

liquid ratio	
workings	answer
$\text{liquid ratio} = \frac{\text{current assets} - \text{inventory}}{\text{current liabilities}}$ $= \frac{(9340 + 14010) - 9340}{(9475 + 2240)}$ $= \frac{14010}{11675} = 1.2 : 1$	$\underline{1.2 : 1}$

[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.

Trade payables turnover is of 37 days but Adit is paying ~~to~~ within 35 days. This can avoid business to take use of cash somewhere else. Paying faster is creating bank overdraft as business is left with no money.

If Adit did not pay trade payables on time in order to reduce bank overdraft so this may increase ~~the~~ business's liability as supplier can charge interest on overdue amount.

If Adit paid faster so this may improve the relationship with the customer.

[5]



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

- 1 Charge interest on overdue amounts.
  - 2 Refuse further supplies until outstanding balance is paid.
  - 3 Offer cash discount on prompt payments.
- [3]

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

- 1 To identify its revenue and costs.
  - 2 To see whether there is profit or loss of the year.
- [2]

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

- 1 It controls the expenses.
  - 2 Let us be aware of cash and revenue earned.
- [2]

[Total: 20]

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