



Cambridge Assessment  
International Education

# Specimen Paper Answers – Paper 2

## Cambridge International AS & A Level Accounting 9706

For examination from 2023



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## Introduction

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These specimen answers have been produced by Cambridge ahead of the examination in 2023 to exemplify standards for those teaching Cambridge International AS & A Level Accounting 9706. We have selected questions from Specimen Paper 2, Questions 1, 2, 3 and 4.

The marks given are for guidance only and are accompanied by a brief commentary explaining the strengths and weaknesses of the answers. Comments are given to indicate where and why marks were awarded, and how additional marks could be obtained. There is also a list of common mistakes and guidance for candidates for each question.

The specimen materials are available to download from the [School Support Hub](#).

**2023 Specimen Paper 02**

**2023 Specimen Paper Mark Scheme 02**

Past exam resources and other teaching and learning resources are available from the [School Support Hub](#).

## Details of the assessment

### Paper 1

Multiple Choice 1 hour  
 30 marks  
 30 multiple-choice questions  
 Questions are based on sections 1 and 2 of the subject content.  
 Externally assessed  
 28% of the AS Level  
 14% of the A Level

### Paper 3

Financial Accounting 1 hour 30 minutes  
 75 marks  
 Three structured questions  
 Questions are based on section 3 of the subject content; knowledge of material from the AS Level subject content is assumed.  
 Externally assessed  
 30% of the A Level

### Paper 2

Fundamentals of Accounting 1 hour 45 minutes  
 90 marks  
 Four structured questions  
 Questions are based on sections 1 and 2 of the subject content  
 Externally assessed  
 72% of the AS Level  
 36% of the A Level

### Paper 4

Cost and Management Accounting 1 hour  
 50 marks  
 Two structured questions  
 Questions are based on section 4 of the subject content; knowledge of material from the AS Level subject content is assumed.  
 Externally assessed  
 20% of the A Level

## Assessment objectives

The assessment objectives (AOs) are:

### AO1 Knowledge and understanding

- Demonstrate knowledge and understanding of facts, terms, concepts, policies, procedures and techniques relating to financial accounting and cost and management accounting.
- Apply this knowledge and understanding to a variety of accounting situations and problems, and present outcomes in the most appropriate form.

### AO2 Analysis

- Analyse financial accounting information and cost and management accounting information.
- Select, calculate and interpret relevant data and information.
- Communicate outcomes in the most appropriate form.

### AO3 Evaluation

- Evaluate financial accounting information and cost and management accounting information to make informed recommendations and decisions.
- Make judgements and draw conclusions based on financial and non-financial data.

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## Question 1

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### Question 1(a)(i)

1 Hamid and Jamila have been in partnership for several years and do not have a partnership agreement. They do not maintain full accounting records.

(a) (i) State **two** disadvantages to Hamid and Jamila of trading as a partnership rather than as sole traders.

[2]

1 Hamid and Jamila will have to share profits hence reduced profits for each.

2 Hamid and Jamila would not have full control as they must consult with each other before deciding.

**Mark awarded = 2 out of 2**

#### Examiner comment

The answer has clearly expressed two disadvantages of a partnership in comparison to a sole trader.

### Question 1(a)(ii)

(ii) State **three** items other than the profit and loss sharing ratio which may be included in a partnership agreement.

[3]

1 Interest on capital

2 Interest on drawings

3 Profit and loss sharing

**Mark awarded = 2 out of 3**

#### Examiner comment

The answer has clearly expressed three items, however only 2 marks are awarded as the third item attracts no marks.

#### Common errors and general guidance for candidates

The item profit and loss sharing has been included but the question specifically asks for three items other than this. Candidates should ensure they read the question properly.

## Question 1(b)

**Additional information**

The partners have provided the following information for the year ended 31 December 2020.

	At 31 December 2020	At 1 January 2020
	\$	\$
Administrative expenses owing	–	472
Administrative expenses prepaid	291	–
Furniture and fittings at carrying value	26 580	24 720
Inventory	9 322	7 430
Insurance prepaid	–	390
Trade receivables	12 930	14 380

During the year ended 31 December 2020:

	\$
Irrecoverable debt written off	336
Receipts from trade receivables	164 650
Returns inwards	1 084

All sales are made on credit.

**(b)** Calculate the revenue for the year ended 31 December 2020.

[3]

Details	\$	Details	\$
Balance b/d	12 930	Irrecoverable debts	336
Sales (Bal fig)	167 520	Returns inwards	1 084
		Bank	164 650
		Balance c/d	14 380
	180 450		180 450

**Mark awarded = 2 out of 3**

**Examiner comment**

The candidate has answered using a ledger account format. This specific format is not required, as the question asks for a calculation, therefore any suitable form may be used. However, ledger accounts can help candidates to record the figures correctly in order to calculate the missing items.

The entries have been correctly recorded on the correct sides of the account, except for the opening and closing balances which have been reversed, hence the final OF mark is not awarded.

**Common errors and general guidance for candidates**

It is important to make a note of how the question data is presented in terms of the opening and closing balances. It is common to see candidates reversing such amounts when making adjustments.

Question 1(c)

**Additional information**

The following information is also available for the year ended 31 December 2020.

	\$
Administrative expenses paid	8 228
Insurance paid	1 090
Purchase of additional furniture and fittings	4 500
Purchases of goods for resale	112 152
Receipts from the disposal of furniture and fittings	575
Rent of business premises	14 500
Staff wages	10 230

All goods are sold with a mark-up of 50%.

During the year Hamid took goods for his own use but no record was made of their value.

Furniture and fittings with a carrying value of \$800 were disposed of during the year.

(c) Prepare the partnership statement of profit or loss for the year ended 31 December 2020. [14]

Workings:

$$W1 \ 8\ 228 + 472 - 291 = 8\ 409$$

$$W2 \ 24\ 720 + 4\ 500 - 800 - 26580 = 1\ 840$$

$$W3 \ 1\ 090 - 390 = 700$$

$$W4 \ 800 - 575 = 225$$



## Statement of profit or loss

	\$	\$
Revenue		167 520
Cost of sales		
Opening inventory	7 430	
Purchases	112 152	
Goods for own use (balancing figure)	(26 500)	
Closing inventory	(9 322)	
		(83 760)
Gross profit	167 520 x 50%	83 760
Expenses		
Administrative expenses W1	8 409	
Depreciation charge W2	1 840	
Insurance W3	700	
Loss on disposal W4	225	
Rent	14 500	
Staff wages	10 230	
		(35 904)
Profit for the year		47 856

**Mark awarded = 9 out of 14**

### Examiner comment

This question required preparation of a statement of profit or loss in a specific format for a partnership.

Appropriate labels are required, in particular labels for cost of sales, gross profit and profit for the year must be correct. No abbreviation is allowed for labels (e.g., GP for gross profit). Revenue figure used is OF from part (b).

Gross profit calculation uses 50% margin on revenue figure rather than a 50% mark-up hence the mark for gross profit is not awarded. However, the answer then goes on to use OF correctly for cost of sales and goods taken for own use. The answer omits returns inwards and irrecoverable debts, even though both items were used in the previous part. The administrative opening owing balance and insurance opening prepaid balances were treated incorrectly, however the candidate showed appropriate workings. For example, if administrative expenses had been shown as \$8409 with no workings, no marks would be awarded. However, the example answer supports \$8409 with a working, so may be awarded 1 out of the 2 available marks for this.

### Common errors and general guidance for candidates

Candidates should pay particular attention to the format and layout for financial statements. As well as the comments noted in relation to presentation in this specific example, all sections must have a subtotal because this is a financial statement. Although in this particular instance there are no marks shown in the mark scheme for this, it is often the case that appropriate presentation marks are awarded for such aspects.

### Question 1(d)(i)

#### Additional information

Hamid and Jamila have been advised that their business could be improved if they were to keep full accounting records. They are considering two options.

Option 1: To employ a part-time book-keeper at a salary of \$5000 per year.

Option 2: To purchase a new computerised accounting package to maintain all the financial records. This will cost \$12 000 and will be written off over 5 years. Hamid has said he will loan \$12 000 to the business, but will require interest of 5% per year on the loan.

(d) (i) Calculate Jamila's share of profit or loss for **both** Option 1 and Option 2.

[3]

Option 1  $\$(47\,856 - 5000) / 2 = 21\,428$

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Option 2  $\$(47\,856 - 600) / 2 = 23\,778$

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**Mark awarded = 2 out of 3**

#### Examiner comment

Profit share is calculated correctly based on OF from part (c) as profits and losses are shared equally in the absence of a partnership agreement. However, the answer for option 2 omitted the required adjustment for the depreciation charge and only deducted the interest charge on the borrowing.

Question 1(d)(ii)

(ii) Advise the partners which option they should choose. Justify your answer.

[5]

*Option 1 will result in lower share of profits and bookkeeper may not be accurate as keeping records manually whereas Option 2 will reduce the errors which will make the data more reliable and improve the speed for processing of transactions as most of the processing is done automatically. So, Option 2 should be chosen as gives higher profit.*

[Total: 30]

**Mark awarded = 4 out of 5**

**Examiner comment**

Although the answer has two points for each option and a decision, one point relating to accuracy or errors is repeated in both options.

**Common errors and general guidance for candidates**

Some candidates don't provide a decision and discuss **both** options.

**Total marks awarded = 21 out of 30**

## Question 2

### Question 2(a)

2 Sergio is a sole trader. His book-keeper prepares regular bank reconciliation statements.

(a) State **two** benefits of preparing regular bank reconciliation statements.

[2]

1 *It helps to identify errors in the cash book and bank statement.*

2 *It helps to identify reasons for the differences in cashbook and bank statement balances.*

**Mark awarded = 2 out of 2**

### Examiner comment

Two clear benefits expressed.

### Question 2(b)

#### Additional information

Sergio is preparing his financial statements to 31 May 2020.

His bank statement shows the following for the first week of June 2020:

Date	Details	Debit	Credit	Balance	
2020		\$	\$	\$	
31 May	Balance			12 350	Debit
1 June	Cash and cheques banked		1 211	11 139	Debit
2 June	Cheque 1681	527		11 666	Debit
	Cheque 1682	361		12 027	Debit
	Cash and cheques banked		2 170	9 857	Debit
3 June	Cheque 1683	1 260		11 117	Debit
4 June	Standing order adjustment		225	10 892	Debit
6 June	BACS Sofia	536		11 428	Debit
7 June	Balance			11 428	Debit

The following information is also available.

- 1 The deposits on 1 June and 2 June both relate to amounts received and recorded by Sergio in his cash book for the month of May.
- 2 The last cheque that Sergio issued in May 2020 was number 1683.
- 3 The adjustment on 4 June 2020 related to a standing order debited by the bank in error on 27 May 2020.
- 4 On 5 June 2020 Sergio received a letter from the bank that had been delayed in the post. The letter stated that on 29 May 2020:

bank charges of \$90 and bank interest of \$120 had been debited to his account

an amount of \$360 had been received electronically from Alvaro, a credit customer.

- (b) Prepare Sergio's bank reconciliation statement at 31 May 2020 to show the balance in the cash book **before** it is updated.

[7]

**Bank reconciliation statement as at 31 May 2020**

	\$	\$
<i>Balance as per bank statement</i>		(12 350)
<i>Outstanding lodgements</i>		
<i>1 June</i>	1 211	
<i>2 June</i>	2 170	
		3 381
<i>Unpresented cheques</i>		
<i>No. 1681</i>	527	
<i>No. 1682</i>	361	
<i>No. 1683</i>	1 260	
		(2 148)
<i>Balance as per updated cash book</i>		(111 17)
<i>Bank charges</i>	90	
<i>Bank interest</i>	120	
		(210)
<i>Bank transfer</i>		360
<i>Balance as per cash book before updating</i>		(10 967)

**Mark awarded = 4 out of 7**

**Examiner comment**

This is a preparation of a bank reconciliation statement to find out the balance before updating the cash book. The answer missed out the error made by the bank. The items required for updating the cashbook have been treated incorrectly.

**Common errors and general guidance for candidates**

This is an overdrawn balance, and therefore it is important to show the directions of reconciling items clearly and to indicate the nature of the balances in both the bank statement and the cashbook.

**Question 2(c)**

**Additional information**

Sergio's bank manager has asked Sergio to repay the overdraft within the next three months.

Sergio has identified two possible options.

Option 1: Miguel, a close friend, would provide Sergio with a loan of \$10 000 repayable in five annual instalments of \$2500.

Option 2: Sergio could take a seven-year bank loan from another bank for \$16 000. This bank would require an annual interest of \$1000 and security for the loan.

**(c)** Explain the benefits and drawbacks to Sergio of each option.

[6]

*Option 1*

*Benefits: No security is required to borrow money.*

*Drawbacks: The loan is not enough hence would not cover repayment of the overdraft.*

*Option 2*

*Benefits: Will provide more money than the overdraft amount.*

*Drawbacks: The loan will need security hence can lose business asset provided as a security if unable to pay the loan back.*

[Total: 15]

**Mark awarded = 4 out of 6**

**Examiner comment**

The answer provided only one benefit and drawback for each option, although it should be clear that more than one benefit and drawback of each option should be explained.

**Total marks awarded = 10 out of 15**

## Question 3

### Question 3(a)(i)

3 The directors of AB plc have decided to make a rights issue and a bonus issue of ordinary shares.

(a) Identify **two** advantages to the company of:

(i) a rights issue of ordinary shares

[2]

1 *The issue will be cheaper than an issue by prospectus as issued to existing shareholders.*

2 *Existing shareholders retain control as the shares are issued in proportion to shareholding.*

**Mark awarded = 2 out of 2**

#### Examiner comment

Two clear advantages have been identified.

### Question 3(a)(ii)

(a) Identify **two** advantages to the company of:

(ii) a bonus issue of ordinary shares.

[2]

1 *The bonus issue can be used to keep shareholders happy if the company is facing cash outflow problems and is unable to pay cash dividend.*

2 *It will make better utilisation of reserves.*

*Does not dilute ownership*

**Mark awarded = 2 out of 2**

#### Examiner comment

Two clear advantages have been identified.

**Question 3(b)**

**Additional information**

The following information is available for AB plc at 1 January 2020.

Equity	\$
Ordinary share capital (\$0.50 shares)	120 000
Share premium	25 000
Retained earnings	43 000

AB plc has adopted the revaluation model for measuring the value of its non-current assets.

During the year ended 31 December 2020 the following took place:

- 1 July            The directors made a rights issue of one ordinary share for every 6 held at a premium of \$0.05 per share. The issue was fully subscribed.
- 1 August        The directors made a bonus issue of 1 ordinary share for every 5 held on that date. They wished to keep the reserves in their most flexible form.
- 30 September   The directors paid an interim dividend of \$0.08 per share on all shares in issue at that date.
- 31 December    Land which had cost \$120 000 is now only worth \$100 000. This has not been adjusted in the books of account.

The company made a profit for the year ended 31 December 2020 of \$18 000.

**(b)** Prepare the ledger accounts to record these transactions.

[11]

**Ordinary share capital account**

<i>Date</i> <i>2020</i>	<i>Details</i>	<i>\$</i>	<i>Date</i> <i>2020</i>	<i>Details</i>	<i>\$</i>
			1 January	Balance b/d	120 000
			1 July	Bank	20 000
			1 August	Share premium	27 000
31 December	Balance c/d	168 000	1 August	Retained earnings	1 000
		168 000			168 000
					168 000



**Share premium account**

<i>Date</i> 2020	<i>Details</i>	<i>\$</i>	<i>Date</i> 2020	<i>Details</i>	<i>\$</i>
1 August	Share capital	27 000	1 January	Balance b/d	25 000
			1 July	Bank	2 000
		27 000			27 000

**Retained earnings account**

<i>Date</i> 2020	<i>Details</i>	<i>\$</i>	<i>Date</i> 2020	<i>Details</i>	<i>\$</i>
1 August	Share capital	1 000	1 January	Balance b/d	43 000
30 September	dividend	26 880	31 December	Profit for the year	18 000
31 December	Balance c/d	33 120			
		61 000			61 000
			1 January	Balance b/d	33 120

[Total: 15]

**Mark awarded = 9 out of 11****Examiner comment**

This answer required preparation of ledger accounts. The answer provided has not stated all the labels correctly and missed out the loss on revaluation. Note the label/account detailed for the transfer of the profit for the year to the 'statement of profit or loss'.

**Common errors and general guidance for candidates**

Note that dates and labels will be required for all balances and transactions in order to be awarded the mark for this, as this is fundamental to correct preparation of ledger accounts.

**Total marks awarded = 13 out of 15**

## Question 4

### Question 4(a)

- 4 Z Limited is a manufacturing company. It operates two production departments and two service departments. The costs are allocated to each department as follows:

	Production departments		Service departments	
	Machining	Finishing	Stores	Canteen
	\$	\$	\$	\$
Indirect labour	253 000	340 100	52 000	78 000
Other indirect overhead costs	<u>205 000</u>	<u>225 000</u>	<u>80 000</u>	<u>92 000</u>
Total indirect costs	<u>458 000</u>	<u>565 100</u>	<u>132 000</u>	<u>170 000</u>

The costs of the service departments are to be apportioned to the other departments as follows:

Canteen in proportion to the number of employees  
Stores in proportion to the number of stores requisitions

The following information is available:

	Machining	Finishing	Stores	Canteen
Number of employees	5	9	3	1
Direct labour hours	15 000	40 000		
Machine hours	45 000	25 000		
Number of stores requisitions	6 300	7 200		

- (a) Apportion the service department costs by completing the table.

[6]

	Machining	Finishing	Stores	Canteen
	\$	\$	\$	\$
Total indirect costs	458 000	565 100	132 000	170 000
Reapportionment of canteen costs	50 000	90 000	30 000	(170 000)
	508 000	655 100	162 000	-
Reapportionment of stores	75 600	86 400	-	-
Total apportioned costs	583 600	741 500	-	-

**Mark awarded = 6 out of 6**

### Examiner comment

The specimen answer correctly apportions the service department overheads according to the basis provided in the question.

## Question 4(b)

- (b) Calculate, to **two** decimal places, a suitable overhead absorption rate for each of the production departments.

[4]

	Machining	Finishing
	\$	\$
	<u>583 600</u>	<u>741 500</u>
	45 000	40 000
Overhead absorption rate	12.96	18.53
	per machine hour	per labour hour

Mark awarded = 2 out of 4

## Examiner comment

Although the answer provided has calculated the overhead absorption rate using the appropriate basis (machine hours for machining department and labour hours for finishing department), this has not been rounded correctly to 2 decimal places.

## Question 4(c)

## Additional information

Z Limited has been approached by a customer to quote for one of their products. This will require the following:

Direct materials 20 kilos at \$5 per kilo  
 Direct labour 8 hours at \$9 per hour

Direct labour hours and machine hours required in each department will be:

	Machining	Finishing
Direct labour	3 hours	5 hours
Machine time	2 hours	20 minutes

It is the company's policy to achieve a gross margin of 40% on all its products.

- (c) Calculate the total price to quote to the customer.

[6]

	\$
Direct materials (20 kilos at \$5 per kilo)	100.00
Direct labour (8 hours at \$9 per hour)	72.00
Machining department overhead (2 × \$12.96)	25.92
Finishing department overhead (5 × \$18.53)	<u>92.65</u>
	290.57
Margin	<u>116.22</u>
Total price to quote	<u>406.79</u>

**Mark awarded = 5 out of 6**

**Examiner comment**

This is a calculate question, therefore any format is acceptable for the calculation. The answer provided has calculated the final price correctly based on correct direct costs and indirect costs using the OF absorption rates calculated in part (b). However, the calculation of the price to quote has used 40 % of cost (mark-up) rather than a gross margin of 40 %.

**Common errors and general guidance for candidates**

Some candidates confuse mark-up and margin calculations.

**Question 4(d)**

**Additional information**

The customer has said they will buy the goods from Z Limited, but at a price which will earn Z Limited a gross margin of 25%.

**(d)** Advise the directors whether or not they should accept the offer. Justify your answer.

[5]

*Accepting the offer will provide business from this customer in future which will ensure the continuity of business. But other customers may find out the reduced price and will ask to lower their prices or may go to other suppliers.  
Overall, the directors should accept the offer from this customer.*

**Mark awarded = 3 out of 5**

**Examiner comment**

The answer provided gave a decision after stating only one point in favour and one point against accepting the offer.

**Common errors and general guidance for candidates**

The wording 'whether or not' is a clear indication that reasons for **both** accepting **and** reasons for rejecting need to be considered.

**Question 4(e)**

**Additional information**

Z Limited operates a second factory. It uses both direct labour hours and machine hours to absorb its factory overheads. The cost accountant has suggested that a single factory-wide overhead absorption rate should be used instead.

**(e)** Advise the directors whether or not they should make this change. Justify your answer.

[5]

*Directors are advised not to make the change as changing will result in the different products absorbing the overheads incorrectly as some products may be labour intensive rather than machine intensive which will lead to uncompetitive selling prices being charged.*

**Mark awarded = 3 out of 5**

**Examiner comment**

The answer provided a decision after giving only reasons against making the change. No comments were made in favour of the change.

**Common errors and general guidance for candidates**

As above, reasons for both making and not making the change should be considered.

**Question 4(f)**

- (f) Discuss the impact of over-absorption of overheads on the profits of a manufacturing business.

[4]

*Over absorption of overheads mean that too much overhead is charged to the product than what are incurred which will lead to increased profits.*

[Total: 30]

**Mark awarded = 2 out of 4**

**Examiner comment**

The answer provided only stated the meaning of over absorption and its impact on profit. Only two points are mentioned. The task is worth 4 marks, therefore further points are required.

**Total marks awarded = 21 out of 30**

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