* 0011657226501 *

Cambridge Assessment International Education

CANDIDATE NAME Script A

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 $
	January					
65	1	Bal b/d				
135	1	Bank				
	3	Stationery	24		24	
	7	Travelling expenses	49	49		
	14	Razvan	85			85
	22	Taxi fare	18	18		
	29	Postage	11		11	
			187	67	35	85
	31	Balance c/d	13			
200			200			
	February					
13	1	Balance b/d				

[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	$
1/1/2020	Bal b/d	85	14/1/20	Bank	85
19/1/20	Sales	180	18/1/20	Sales returns	36
			31/1/20	Bal c/d	144
		265			265
1/2/20	Bal 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 Direct transfer from bank

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:	
Purchases journal	14 200
Purchases returns journal	1 160
Cash purchases	5 390
Commission receivable	2 110
Cash discount received	650
Cash discount allowed	710
Cheques paid to trade payables	11 420
Sales ledger contras	250
Interest charged by trade payables	95
Cheque refunds from trade payables	330
Purchases ledger control account balance at 30 November	13 195

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	$
Nov'19			Nov'19		
1	Purchase returns	1160	1	Bal b/d	12050
1	Discount received	650	1	Purchases	14200
1	Bank	11420	1	Interest	95
1	Sales ledger control	250	1	Refunds	330
30	Bal c/d	13195			
		26675			26675
			Dec'19		
			1	Bal b/d	13195

[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 Purchase of delivery vehicle is a ~~not~~ capital expenditure and not part of goods for resale

2 Cost of Sales would be overstated and gross profit understated. [2]

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

Reducing balance method [1]

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

1 As the value falls, its usage every year will not be same

2 The ~~a~~ vehicle's value will never fall to ~~0~~ 0.

3 The depreciation of vehicle decreases as time passes and vehicle deteriorates [3]

The depreciation is calculated ~~charged~~ on present value (netbook value)

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 a long term loan is obtained, ~~as~~ fixed rate interest will be payable irrespective of profit earned. But there won't be any new shareholders so any more dividend will not need to be paid. If ordinary shares are issued the dividend paid to them will ~~be~~ depend on profit earned. They may also call up more capital and so can raise finance in future too. But more shareholders mean ~~a~~ dilution of ownership. Since $250000 is a high amount and loan interest would be high, additional ordinary shares should be issued. [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		124000
Inventory at 1 January 2019	5390	
Purchases	55440	
Discount allowed	2400	
Discount received		1385
Carriage outwards	6160	
Insurance	7920	
General expenses	8100	
Wages	9600	
Trade receivables	11590	
Trade payables		6051
Bank	8136	
Premises at cost	90000	
Furniture at cost	24000	
Provision for depreciation on furniture		5600
Capital accounts		
Tia		80000
Sarna		40000
Current accounts		
Tia		2100
Sarna		1600
Drawings		
Tia	15000	
Sarna	17000	
	260736	260736

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
Less cost of sales (Inventory)	5390	
Purchases	55440	55665 ~~56205~~
Closing inventory Cost of Sales = 55665	(5165)	~~50275~~
~~Gross Profit~~		~~73725~~
Gross Profit	68335	~~67795~~
Add Incomes		
Discount received		1385
	69720	~~69180~~
~~Les~~ Less Expenses		
Discount allowed	2400	
Carriage outwards	6160	
Wages	9600	
General expenses	8100	
Insurance $(2160 - 2160(\frac{6}{12}))$	1080	
Depreciation on furniture 24000x20%	4800	32140
Profit for the year		~~37040~~
		37580

[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	37580	~~37040~~
Less interest on capital - Tia	4000	
- Sarna	2000	6000
	31580	~~31040~~
Less partner's salary - Tia	~~6000~~	6000
Residual profit	25580	~~25040~~
Share of profit - Tia	12790 ~~12520~~	
- Sarna	~~12520~~	~~25040~~
	12790	25580

[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	$
31/12/19	Drawings	17000	31/12/19	Bal b/d	1600
			31/12/19	Interest on capital	2000
			31/12/19	Profit share	12790 ~~12580~~
			31/12/19	Bal c/d	~~880~~ 610
		17000			17000
Jan'20					
~~1~~	~~Bal b/d~~	~~880~~			
1	Bal b/d	610			

[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.

The partners should make this transfer as they will earn higher interest and so higher profit for the year. Their working capital ratio is already satisfactory. Even after the transfer, the liquid ratio would be around 2:1. But they may not make the transfer if they feel they can't take advantage of cash discounts. They may not be able to take advantage of opportunities if they arise. [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.

Bank 200 Fittings 200

[illegible] 150

15 50

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 Dr	135	
	Discount received A/C Cr		135
	(Error corrected, discount		
	received treated as		
	commission receivable)		
2.	Fixtures and Fittings A/C	50	
	Income Statement		50
	(Error corrected, incorrect amount		
	credited to fixtures A/C)		
3.	Purchase A/C Dr	40	
	Cash A/C Cr		40
	(Error corrected, cash		
	drawings 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	$
Jan'20			Jan'20		
31	Difference on Trial Balance	1077	31	Equipment	575
31	Office expenses	73	31	Eq. repairs	575
		1150			1150

[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 He does not ~~have~~ need to share profits

2 He does not need to consult others before making decisions so decisions are quicker

3 He is not liable for the actions of any business partners. [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
$\frac{\text{Profit for year}}{\text{Revenue}} = \frac{27900}{18600}$ $= \cancel{0.75:1}$ 0.15 = 15%	15% or 0.15 : 1

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

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
Trade receivables / Credit sales (Revenue) ~~if ta~~ x365 = 14010 / 186000 x365 3dp = 27.5	28 if taking 27.49 then 27

liquid ratio	
workings	answer
Current assets - Inventory : Current Liabilities 14010 : 9435 + 2240 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.

He should not delay paying trade payables since trade payable turnover ~~balance~~ is high and relationship with supplier may get ruined. Since he is already above limit, an interest may be charged to him. He may not get more supplies on credit and can't take advantage of cash discounts. This would also ~~redu~~ increase the overdraft, maybe increasing it beyond the credit limit. If he delays payment he can only prevent increase in overdraft temporarily and he may not be able to earn in that time.

[5]

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

1 Introduce more capital or get a partner to raise finance

2 Take a long term loan

3 Sell non-current assets [3]

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

1 To calculate accurately the profit or loss for the year.

2 To compare the performance of business with past years or with similar firms. [2]

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

1 To make sure that reliable, accurate and real information is provided so that assets are not overstated.

2 To make sure that information provided is relevant and easily comparable and understandable and that there is no subjective nature of information [2]

[Total: 20]