



CANDIDATE
NAME

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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 \$
200	1-Jan-2020	balance b/d				
65	Jan-3	stationery	24		24	
	Jan-7	Travelling expenses		49		
	Jan-14	Razvan	85			85
	Jan-22	Taxi fare	18	18		
	Jan-29	postage	11		11	
			<u>138</u>	<u>67</u>	<u>35</u>	<u>85</u>
62		balance c/d	62			
		Bank/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	\$
Jan-14	Bank / Cash	85	1-Jan	balance b/d	85
Jan-28	Sales return	40	19-Jan	Sales	180
	balance c/d	140			
		<u>265</u>			<u>265</u>
				balance b/d	140

[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 Demand Draft (dd)
- 2 Money Transfer

[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	<u>14 200</u>
Purchases returns journal	<u>1 160</u>
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 contra	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	\$
		12830			28470
1-Nov	purchase return	1160	1-Nov	purchases	14200
1-Nov	bank	11420	1-Nov	discount received	650
1-Nov	Contra entry	250	1-Nov	Interest charged	95
			1-Nov	dishonoured cheque	330
30-Nov	balance b/d	15640	30-Nov	balance c/d	13195
		<u>28470</u>			<u>28470</u>
			1-Dec	balance b/d	15640



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 ~~Beac~~ Because delivery vehicle is an non-current assets. [1]
- 2 Because delivery vehicle has the depreciation on it which purchase ledger control account do not record. [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 So that the ^{percentage of} depreciation applied on delivery vehicle can be known. [1]
- 2 To know the cost and the scrap value of the asset. [1]
- 3 To spread the cost ~~over~~ of assets over its useful life. [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 additional ordinary share:- The advantage of choosing this option to GHB limited would be more shares will be available to them. Not only this but also the risk of ~~going~~ falling shortage of shares will be reduced. But on the other hand the disadvantage would be more expense as GHB limited are buying more shares. Moreover GHB will have ~~an~~ even more expense as GHB limited have to spend on the storage cost of shares. Furthermore, the second option is obtaining a long-term bank loan by which the financial problem of GHB limited will be reduced but on the other hand GHB limited have to pay higher interest rates on borrowing long-term loan which will act as a disadvantage to GHB limited.

[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
Inventory at 1 January 2019	5 390	
Purchases	55 440	
Discount allowed	2 400	
Discount received		1 385
Carriage outwards	6 160	
Insurance	7 920	
General expenses	8 100	
Wages	9 600	
Trade receivables	11 590	
Trade payables		6 051
Bank	8 136	
Premises at cost	90 000	
Furniture at cost	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.
- 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

	\$	\$
Sales / Revenue		124000
(-) Sales return		(-)
Net Sales		124000
(-) Cost of Sales		
Opening Inventory	5390	
(+) purchases	55440	
(-) closing Inventory	(5165)	(55665)
Gross profit		68335
(+) Other operating income		
Discount received	1385	
(-) Other operating expenses		
Administration		
Insurance (7920 + 2160)	10080	
General expenses	8100	
Wages	9600	
premises	90000	
furniture	4800	
Selling & distribution		
Carriage outwards	6160	127355
profit for the year		59020

[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		59020	
(+) Interest on drawings			
Tia	15000		
Sarna	17000	32000	
(-) Interest on Capital			
Tia (80000 x 5%)	(4000)		
Sarna (40000 x 5%)	(2000)	(2000)	
(-) partner's salary			
Tia	(6000)		
Residual profit		83020	
profit share			
Tia	41510		
Sarna	41510	83020	[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-dec	Interest on drawings (15000 + 17000)	32000	31-dec	Interest on Capital	6000
			31-dec	partner's salary (Tia)	6000
			31-dec	Current account	
				Tia	2100
				Sarna	1600
			1-Jan	balance c/d	16300
		32000			32000

1-Jan balance b/d 16300

[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.

Transferring \$ 7000 from business bank account will be benefitted as they will be paying less interest rates in the interest bearing deposit account but on the other hand the disadvantage to tia & sarna would be they may fall short of cash ~~at~~ with the business as interest bearing deposit account ~~could~~ ^{may not} provide quickly ~~to~~ the liquidity of cash so to conclude it is advisable to not to transfer \$ 7000 to interest bearing deposit account.

[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	135	
	discount received	135	
	Suspense account		270
	(Commission & discount debited to correct the error & Suspense Credited)		
2	Fixtures & fittings	200	
	Sale of fittings		200
	(Reversed the account to satisfy error).		
3	Cash drawing	40	
	Purchases	40	
	Suspense		80
	(Cash drawing & purchases debited & suspense account opened with doubtful balance).		

[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	\$
31-Jan	Income Statement	496	31-Jan	balance b/d	496
		496			496

[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 ~~Arjun~~ Arjun can be his own boss

2 Arjun can receive all the profits as profits are not shared.

3 Arjun can start his business with small amount of capital. [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
$\frac{\text{Profit for the year}}{\text{Net sales}} \times 100$ $\frac{27900}{186000} \times 100 = 15$	15

trade payables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade payable}}{\text{Credit purchases}} \times 365/52/12$ $\frac{9435}{93075} \times 365 = 37 \text{ days}$	37 days

trade receivables turnover (days)	
workings	answer (round up to nearest whole day)
$\frac{\text{Trade receivable} \times 365/52/12}{\text{Credit Sales}}$	28 days
$\frac{14010}{186000} \times 365 = 27.49 \Rightarrow 27.5$ $\Rightarrow 28 \text{ days}$	

liquid ratio	
workings	answer
$\frac{\text{Current Asset} - \text{closing Inventory}}{\text{Current liability}}$	1.4848
$\frac{23350 - 9340}{9435} = \frac{14010}{9435}$	$\Rightarrow 1.48$
	$\Rightarrow 1.48:1$

[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 would delay ~~the~~ paying trade payables then trade payables will lack the trust from Adit and may not give any of the discounts but on the other hand the bank balance would reduce & this may benefit Adit. But if Adit will not delay then ^{the} trade payable of Adit may give discounts which would benefit Adit but on the other hand the bank balance will increase. [5]





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

- 1 pay the Trade payables early.
- 2 ^{do} More purchases
- 3 To have a good credit control policy. [3]

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

- 1 To check the progress of the business
- 2 To check the profit for the year or to compare the Income Statement with previous year. [2]

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

- 1 So that the actual value of money will be recognised.
- 2 ~~to~~ To reduce errors eg - skills can not be recorded in the books of account. [2]

[Total: 20]

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