* 0000800000001 *

Cambridge Assessment International Education

Cambridge International AS & A Level

CANDIDATE NAME

CENTRE NUMBER

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* 0 2 5 3 9 0 5 2 6 8 *

ACCOUNTING **9706/21**

Paper 2 Fundamentals of Accounting **May/June 2025**

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.
- 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 an HB pencil for any rough working.
- You may use a calculator.
- You should present all accounting statements in good style.
- International accounting terms and formats should be used as appropriate.
- You should show your workings.

INFORMATION

- The total mark for this paper is 90.
- The number of marks for each question or part question is shown in brackets [ ].

This document has **20** pages. Any blank pages are indicated.

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1 Bilal provided the following information for his service business for the year ended 31 December 2024.

1 Receipts and payments for the year ended 31 December 2024 included:

	$
Receipts	
Cash fees	78 440
Fees from credit clients	34 290
Rent received	4 950
Payments	
Advertising campaign	4 500
Electricity charges	3 610
General expenses	880
Motor vehicle running costs	1 320
Wages and salaries	31 600

2 On 1 January 2024, trade receivables were $15 800, and on 31 December 2024, trade receivables were $11 600.

3 On 1 January 2024, the allowance for irrecoverable debts was $632. On 31 December 2024, Bilal decided to increase the allowance for irrecoverable debts by 1%.

4 On 1 January 2024, electricity charges of $270 were outstanding. On 31 December 2024, electricity charges of $490 were prepaid.

5 On 1 May 2024, part of the business premises was rented out at $1650 for every three months receivable in advance.

6 On 1 November 2024, the advertising campaign commenced. It will end on 31 January **2026**.

7 During the year ended 31 December 2024, a motor vehicle, cost $21 000, was sold for $9100. It had been depreciated for three years at 20% per annum using the reducing balance method. No depreciation is provided in the year of sale.

8 Non-current assets at 31 December 2024 were:

	Date of purchase	Cost $	Depreciation method
Business premises	1 January 2021	120 000	2% per annum straight-line
Motor vehicle	1 January 2024	26 000	20% per annum reducing balance
Furniture and equipment	1 January 2021	22 000	10% per annum straight-line

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(a) Prepare the statement of profit or loss for the year ended 31 December 2024. Use the space provided on **page 4** to show your workings.

Bilal
Statement of profit or loss for the year ended 31 December 2024

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Workings:

Revenue
Allowance for irrecoverable debts
Electricity charges
Rent received
Advertising campaign
Profit or loss on disposal of motor vehicle
Depreciation

[14]

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Additional information

At 31 December 2024, the cash at bank balance was $8950.

(b) Prepare an extract from the statement of financial position at 31 December 2024, showing the assets section **only**.

Statement of financial position (extract) at 31 December 2024

Assets

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Workings:

[7]

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(c) Explain, with reference to an accounting concept, why Bilal:

(i) maintains an allowance for irrecoverable debts

concept .....

explanation .....

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[2]

(ii) always uses the same method of depreciation for each class of non-current asset.

concept .....

explanation .....

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[2]

Additional information

Bilal hopes to expand his business and to move to larger premises. He is considering the following options.

Option A: Renting out the whole of the current business premises and taking out a lease on new premises.

Option B: Selling the current business premises and using the proceeds to partly finance the purchase of new premises. He is aware that he will also need a bank loan to finance the balance of the purchase price of the new premises.

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(d) Advise Bilal which option he should choose. Justify your choice by discussing **both** options.

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2 Ben and George converted their partnership into a limited company, M Limited.

(a) Explain **two** benefits of trading as a limited company rather than as a partnership.

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[4]

Additional information

The following information was extracted from the books of M Limited at 31 December 2024.

	1 January 2024 $	31 December 2024 $
Share capital: ordinary shares of $2 each	?	1 600 000
Share premium	320 000	400 000
Retained earnings	?	243 000
General reserve	–	50 000
8% Debenture (2029)	120 000	120 000
10% Bank loan	–	50 000
Taxation charge	16 000	22 000

On 31 March 2024, the directors had paid an interim dividend of $0.05 per share on all ordinary shares held at this date.

On 30 June 2024, the directors had issued 200 000 ordinary shares at a premium of $0.40 per share.

On 1 October 2024, the bank loan was taken out by M Limited.

For the year ended 31 December 2024, the profit for the year was $285 000.

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(b) Calculate the amount received from the issue of shares on 30 June 2024.

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(c) Calculate the total of the interim dividend paid on 31 March 2024.

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(d) Calculate the profit from operations for the year ended 31 December 2024.

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(e) Prepare the retained earnings account for the year ended 31 December 2024.

Retained earnings account

Date	Details	$	Date	Details	$

[4]

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3 Khaled, the owner of a retail business, provided the following information.

	For the years ended 31 December	
	2024	2023
Gross profit margin	48%	45%
Profit margin	12%	13%

(a) State the formula for calculating **each** of the following ratios.

Gross profit margin	
Profit margin	

[2]

(b) Suggest **two** reasons which could explain the increase in the gross profit margin comparing 2024 with 2023.

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2 .....

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[2]

(c) Suggest **two** reasons which could explain the decrease in profit margin comparing 2024 with 2023, despite the increase in the gross profit margin.

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[2]

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Additional information

Khaled has compared the recent liquidity ratios for his business with ratios for businesses of a similar size and trading in the same goods.

	Khaled's business For the years ended 31 December		Ratio for similar businesses
	2024	2023	
Current ratio	1.60 : 1	1.45 : 1	1.85 : 1
Acid test ratio	0.62 : 1	0.75 : 1	0.50 : 1

Khaled is pleased with the results of this comparison.

(d) Explain with reasons whether or not you agree with Khaled's view of his business's liquidity position. Justify your answer by commenting on **both** ratios.

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Additional information

Khaled is aware that size of business and trading in similar goods are not the only factors to be considered in making comparisons with similar businesses.

(e) Explain **two other** reasons why Khaled may find it difficult to make valid comparisons with similar businesses.

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4 Ameerah's business uses absorption costing.

(a) Define the following terms:

(i) cost centre

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(ii) fixed cost

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(iii) indirect labour.

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Additional information

The business operates two production departments: Processing and Assembly, and it operates two service departments: Maintenance and Stores.

The following budgeted information is available.

Overheads	
	$
Rent	63 000
Depreciation	45 000

	Production departments		Service departments	
	Processing	Assembly	Maintenance	Stores
Floor area (square metres)	140	85	33	42
Machinery cost ($)	120 000	36 000	20 000	4 000
Number of machines	7	3	–	–
Stores requisitions	48	74	18	

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(b) Complete the table to show the total overheads for each department and the reapportionment of service department overheads.

	Total $	Production departments		Service departments	
		Processing $	Assembly $	Maintenance $	Stores $
Overheads allocated	570 760	256 480	193 980	65 720	54 580
Rent					
Depreciation					
Subtotal					
Reapportion Stores					
Subtotal					
Reapportion Maintenance					
Total overheads					

[5]

Additional information

Budgeted hours for each production department were as follows:

	Processing department	Assembly department
Direct labour hours	6 720	8 940
Direct machine hours	11 760	5 040

(c) Calculate, to **two** decimal places, an overhead absorption rate for **each** production department, using a suitable basis.

Processing department	
Assembly department	

[4]

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(d) State **two** reasons why overheads may be under-absorbed.

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[2]

Additional information

The following information is available about pay rates for direct labour in the Processing department.

- Normally direct labour is paid $9.60 per hour for a 32-hour week. Normal output is 24 units per hour.
- Sometimes more experienced direct labour is available and is paid $10.50 per hour for a 30-hour week. Normal output is 30 units per hour.
- The company expects to make a gain on the cost of labour per unit by paying a higher rate to more experienced employees.

(e) Calculate the amount saved per unit by paying experienced labour at a higher rate.

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Additional information

A customer has made an order for 300 units of a product.

Each unit will require the following:

Direct material	1.8 metres at $4.80 per metre
Labour hours per unit	
Processing department	2.25 hours
Assembly department	1.75 hours
Machine hours per unit	
Processing department	1.80 hours
Assembly department	1.25 hours

Direct labour rate will be as follows:

Processing department	$9.60 per hour
Assembly department	$12.20 per hour

Selling prices are set to achieve a profit margin of 60%.

(f) Prepare a statement to show the total selling price for the customer's order.

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Additional information

Ameerah is concerned that she may be losing customers due to high selling prices. She has been considering using marginal costing rather than absorption costing in order to enable more competitive pricing.

(g) Advise Ameerah whether or not she should use marginal costing rather than absorption costing. Justify your advice.

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