

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education Advanced Subsidiary Level and Advanced Level

* 1 8 5 8	CANDIDATE NAME		
	CENTRE NUMBER	CANDIDATE NUMBER	
	ACCOUNTING		9706/23
	Paper 2 Structu	Ired Questions	May/June 2013
8			1 hour 30 minutes
	Candidates ans	wer on the Question Paper.	
8 1 6 *	No Additional M	aterials are required.	
	READ THESE I	NSTRUCTIONS FIRST	
	Write your Cent	re number, candidate number and name on all the work you hand in.	

Write in dark blue or black pen. You may use a soft pencil for rough working.

Do not use staples, paper clips, highlighters, glue or correction fluid.

DO NOT WRITE IN ANY BARCODES.

Answer all questions.

All accounting statements are to be presented in good style. International accounting terms and formats should be used as appropriate. Workings must be shown. You may use a calculator.

At the end of the examination, fasten all your work securely together. The number of marks is given in brackets [] at the end of each question or part question.

This document consists of 12 printed pages.



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1 Eagle Manufacturing Limited produces components for cars and lorries. The following figures have been taken from their books of account.

Revenue		\$000 816		
Inventories at 1 April				
Raw materials	2012	17		
Work in progress		19		
Finished goods		32		
Factory machinery	– cost	420		
	 accumulated depreciation 	52		
Office equipment	– cost	30		
	- accumulated depreciation	10		
Motor vehicles	– cost	60		
	 accumulated depreciation 	34		
Purchases of raw ma	terials	194		
Labour		153		
Electricity		25		
Carriage inwards		6		
Carriage outwards		22		
Rent		60		
Salaries		14		
Sundry expenses		12		
Insurances		18		

Additional information:

1	Inventories at 31 March 2	013 were:
	Raw materials	\$18 000
	Work in progress	\$15 000
	Finished goods	\$41 000

2 Factory machinery and motor vehicles are to be depreciated at 25% using the reducing balance method.
Office equipment is to be depreciated at 10% on cost.
During the year a motor vehicle was sold for \$4 000. The profit on disposal was \$1 000. A new motor vehicle was purchased for \$9 000.
All motor vehicles are used by the sales staff.
A full year's depreciation is charged in the year of purchase, no depreciation is charged in the year of sale.

- 3 At 31 March 2013 electricity of \$5 000 was accrued and rent of \$10 000 was prepaid.
- 4 Labour costs include \$16 000 for indirect labour. The balance is direct labour.
- 5 Electricity is apportioned between the factory and office in the ratio 4:1.
- 6 Rent is apportioned between factory and offices in the ratio 3:2.
- 7 Sundry expenses are apportioned between factory and offices in the ratio 1:2.
- 8 Insurances are apportioned between factory and offices in the ratio 5:1.

REC	QUIRED	For Examiner's
(a)	Prepare the manufacturing account for the year ended 31 March 2013.	Use
	[12]	

(b)	Prepare the income statement for the year ended 31 March 2013.	For Examiner's Use
		036
	[10]	

(c)	Exp	lain how the following will be affected if the company makes a loss in the year:	For
	(i)	Dividend payable for cumulative preference shares	Examiner's Use
		[2]	
	(ii)	Dividend payable for ordinary shares	
		101	
	()	[2]	
	(iii)	Dividend payable on non-cumulative preference shares	
		[2]	
	(iv)	Interest payable on debentures.	
	()		
		[2]	
		[Total: 30]	

5

2 B M Reid's books of account showed the following figures for the year ended 31 December 2012:

	\$
Revenue	200 000
Ordinary goods purchased	145 000
Profit from operations	22 500
Reid's balances at 31 December 2012 we	re:
Inventory	12 500
Trade receivables	40 000
Cash and cash equivalents	10 000
Trade payables	25 000
Finance costs (interest owing)	12 500
Non-current assets at net book value	60 000

Additional information:

- 1 80% of revenue was on credit
- 2 Inventory at 1 January 2012 was \$17 500
- 3 Trade payables and trade receivables balances were unchanged since 1 January 2012.

REQUIRED

- (a) Calculate the following ratios, correct to two decimal places, in each case stating the formula used.
 - (i) Mark-up

[3] (ii) Inventory turnover [3] (iii) Trade receivables turnover [3]

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(iv)	Operating expenses to revenue ratio
	[3]
(v)	Current ratio
	[3]
(vi)	Acid test/liquid ratio
	[3]
(vii)	Non-current asset turnover.
	[3]

Inventory turnover	13 times
Trade receivables turnover	70 days

REQUIRED

(b) Use the above ratios to compare B M Reid's performance with the year ended 31 December 2012. State possible reasons for the changes.

8

[5] (c) State two limitations of the uses of ratios. 1 2 [4] [Total: 30]

His transactions for the first three months of 2013 were:

Date		Purchases (units)	Purchase price (per unit)	Sales (units)
Jan	8 10	100	\$30.00	30
	12	100	φ30.00	80
	21	120	\$30.50	
	28			90
Feb	1			50
	14	150	\$31.00	
	23			100
March	1			30
	4	120	\$31.50	
	19	100	\$20.00	120
	23 27	100	\$32.00	120
	<u> </u>			120

9

No other transactions took place during these months. Each teddy bear was sold for \$50.

REQUIRED

3

\$30 each.

- (a) Calculate the value of the inventory at 31 March 2013 using the following methods of valuation.
 - (i) FIFO

 [3]

	(ii)	AVCO.	For Examiner's
			Use
		[3]	
(b)	Usi 31 I	ng each method of valuation, calculate the gross profit for the three months ending March 2013.	
	(i)	FIFO	
		[5]	
	(ii)	AVCO.	
		[2]	

[2] (ii) AVCO. [2] (d) Brahms currently uses FIFO to value his inventory. He is considering changing the method to show a lower profit each year. State two reasons why he should not do this. Make reference to any relevant accounting principles, concepts and conventions. 1 2 [4] _____

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(c) State one advantage and one disadvantage of using the following methods of inventory

valuation:

(i) FIFO

Charlie runs a similar business and also completes his financial year on 31 March 2013. He
is unable to value his inventory at that date. The stock count takes place on 7 April 2013.
The value at that date is \$1000. Between the two dates the following transactions had
occurred.

Sold goods at a selling price of \$120. (Charlie normally marks up his goods for sale at 25%. These goods were in stock on 31 March 2013.)

Purchased goods at an invoice price of \$70.

Goods sold to a customer for \$80 had been returned by them. (The sale took place on 28 March 2013.)

Damaged goods were discovered which had been included at a cost of \$30. Charlie could only sell them for \$20.

REQUIRED

(e) Calculate the value of Charlie's closing inventory at 31 March 2013.

[9]
[Total: 30]

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