

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

| CANDIDATE<br>NAME   |   |   |   |
|---|---|---|---|
| CENTRE<br>NUMBER  |   | CANDIDATE<br>NUMBER   |   |
| ACCOUNTING  |   |   | 9706/02   |
| Paper 2 Structu   | red Questions   |   | May/June 2007   |
| Candidates answer on the Question Paper.<br>No Additional Materials are required. |   |   | 1 hour 30 minutes   |
| READ THESE I  | NSTRUCTIONS FIRST   |   |   |
|   | NAME<br>CENTRE<br>NUMBER<br>ACCOUNTING<br>Paper 2 Structur<br>Candidates ans<br>No Additional M | NAME   CENTRE   NUMBER   ACCOUNTING   Paper 2 Structured Questions   Candidates answer on the Question Paper. | NAME CENTRE CANDIDATE   NUMBER IIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIIII |

Write your Centre 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. 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.

| For Examiner's Use |  |  |  |  |
|--------------------|--|--|--|--|
| 1                  |  |  |  |  |
| 2                  |  |  |  |  |
| 3                  |  |  |  |  |
| Total              |  |  |  |  |

This document consists of **11** printed pages and **1** blank page.



1 The following balances were extracted from Aurora's accounts at 31 March 2007.

|   | \$000     |
|---|-----------|
| Sales   | 3 200     |
| Purchases of raw materials                      | 450       |
| Purchases returns                               | 18        |
| Carriage inwards                                | 10        |
| Direct labour                                   | 400       |
| Direct overheads                                | 60        |
| Rent  | 40        |
| Electricity                                     | 30        |
| Insurance                                       | 55        |
| Factory supervision salaries                    | 65        |
| Office salaries                                 | 70        |
| Indirect factory wages                          | 13        |
| Factory cleaning                                | 50        |
| Office cleaning                                 | 50        |
| Stocks at 1 April 2006:                         |           |
| Raw materials                                   | 110       |
| Work in progress                                | 55        |
| Finished goods                                  | 80        |
| Factory machinery at cost                       | 640       |
| Provision for depreciation on factory machinery | 280       |
| Additional information at 31 March 2007:        |           |
|   | \$000     |
| Rent prepaid                                    | ¢000<br>5 |
| Electricity accrued                             | 15        |
| Insurance prepaid                               | 10        |
| Stocks – Raw materials                          | 140       |
| Work in progress                                | 75        |
| Finished goods                                  | 170       |

Depreciation on factory machinery is to be provided at 25% per annum reducing balance.

Rent, electricity and insurance are apportioned on the basis of 80 % to factory and 20 % to office.

Finished goods are transferred to the trading account at total factory cost plus one third.

## REQUIRED

(a) Prepare Aurora's manufacturing account for the year ended 31 March 2007.

| [24] |
|------|

(b) Prepare Aurora's trading account for the year ended 31 March 2007.

[6] [Total: 30] 2 Archie Pelago buys and sells a single product. His first three months of trading showed the following purchases and sales.

| 2005     | Purchases  | Sales      |
|----------|------------|------------|
| February | 300 @ \$25 | 150 @ \$35 |
| March    | 120 @ \$27 | 210 @ \$38 |
| April    | 240 @ \$29 | 205 @ \$41 |

For the following requirements either perpetual **or** periodic inventory may be used. Calculations should be taken to a maximum of **two** decimal places.

## REQUIRED

(a) Calculate Archie's closing stock at 30 April 2005 using the FIFO (first in first out) method of stock valuation.

(b) Calculate Archie's closing stock at 30 April 2005 using the LIFO (last in first out) method of stock valuation. ..... [2] ..... (c) Calculate Archie's closing stock at 30 April 2005 using the AVCO (weighted average cost) method of stock valuation. [2] \_\_\_\_\_

| (d) | Calculate Archie's gross profit using <b>each</b> of the above methods of stock valuation. |
|-----|--|
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     |  |
|     | [10]   |

7

Archie Pelago's balance sheets at 30 April 2006 and 2007 were as follows:

|  | 30 April 2006 |              | 30 April 2007            |              |        |                          |
|--|---------------|--------------|--------------------------|--------------|--------|--------------------------|
|  | \$            | \$           | \$                       | \$           | \$     | \$                       |
| Fixed assets<br>(Net book value)<br>Premises |               |              | 100 000                  |              |        | 100 000                  |
| Equipment                                    |               |              | <u>75 000</u><br>175 000 |              |        | <u>56 500</u><br>156 500 |
| Current assets                               |               |              |                          |              |        |                          |
| Stock  | 7 500         |              |                          | 6 800        |        |                          |
| Debtors                                      | 10 800        |              |                          | 8 900        |        |                          |
| Bank<br>Cash                                 | 2 000<br>400  | 20 700       |                          | -<br>400     | 16 100 |                          |
| Casil  | 400           | 20700        |                          | 400          | 10 100 |                          |
| Current liabilities                          |               |              |                          |              |        |                          |
| Creditors                                    | 6 200         |              |                          | 7 300        |        |                          |
| Bank   |               | 6 200        |                          | <u>1 200</u> | 9 500  |                          |
| Net current assets                           |               | <u>6 200</u> | 14 500                   |              | 8 500  | 7 600                    |
| Net current assets                           |               |              | <u>189 500</u>           |              |        | <u>164 100</u>           |
| Capital at 1 May 2006                        |               |              | 120 000                  |              |        | 189 500                  |
| Net profit (loss)                            |               |              | 83 500                   |              |        | <u>(11 400</u> )         |
|  |               |              | 203 500                  |              |        | 178 100                  |
| Less drawings                                |               |              | 14 000                   |              |        | 14 000                   |
|  |               |              | <u>189 500</u>           |              |        | <u>164 100</u>           |

### REQUIRED

(e) For each year, calculate to a maximum of two decimal places:

- (i) the current ratio;
- (ii) the liquid ratio.

[8]

(f) From your calculations in (e) and the balance sheets given in the question discuss **briefly** Archie's financial status on 30 April 2007 compared to 30 April 2006.

[3] [Total: 30] **3** Fernando manufactures 3 types of refrigerator for Household, Business and Factory use. The following data apply to the year ended 30 April 2007.

|                    | Household      | Business       | Factory        | Total          |
|--------------------|----------------|----------------|----------------|----------------|
| Sales (units)      | 2 400<br>\$    | 900<br>\$      | 2 250<br>\$    | 5 550<br>\$    |
| Total sales value  | 240 000        | 108 000        | 360 000        | 708 000        |
| Total costs        |                |                |                |                |
| Direct material    | 96 000         | 45 000         | 112 500        | 253 500        |
| Direct labour      | 72 000         | 28 800         | 94 500         | 195 300        |
| Variable overheads | 24 000         | 13 500         | 45 000         | 82 500         |
| Fixed overheads    | <u>57 600</u>  | 27 000         | <u>67 500</u>  | <u>152 100</u> |
|                    | <u>249 600</u> | <u>114 300</u> | <u>319 500</u> | <u>683 400</u> |
| Profit (loss)      | (9 600)        | (6 300)        | 40 500         | 24 600         |

## REQUIRED

(a) For the year ended 30 April 2007 calculate for each type of refrigerator:

- (i) the contribution per unit;
- (ii) the contribution as a percentage of sales.

Give answers to a maximum of **two** decimal places. Workings **must** be shown.

[12]

(b) Calculate the break-even point for **each** type of refrigerator in both **units** and **dollars**. Give your answers to the nearest whole number. Workings **must** be shown.

[12] (c) The table at the beginning of the question shows that both the Household and the Business models appear to be making a loss. Explain why Fernando should not cease production of these two types of refrigerator. ..... [6] [Total: 30]

# **BLANK PAGE**

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge.