## UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS <br> General Certificate of Education <br> Advanced Subsidiary Level and Advanced Level

## ACCOUNTING

## 9706/02

Paper 2 Structured Questions
May/June 2006
1 hour 30 minutes
Candidates answer on the Question Paper.
No Additional Materials are required.

## READ THESE INSTRUCTIONS FIRST

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.
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 |  |
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| 1 |  |
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| Total |  |

This document consists of 14 printed pages and 2 blank pages.

| 2 |  |
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| After completion of the Trading Account, the following balances were extracted from the |  |
| books of Peter Jordan plc on 30 April 2006. |  |
|  |  |
|  | $\$$ |
| Authorised and issued share capital |  |
| Ordinary shares of \$1 each fully paid |  |
| $7 \%$ Preference shares of $\$ 1$ each fully paid | 1500000 |
| Premises | 200000 |
| Motor vehicles | 2300000 |
| Fixtures and fittings | 500000 |
| Provision for depreciation on motor vehicles | 170000 |
| Provision for depreciation on fixtures and fittings | 375000 |
| Gross profit | 102000 |
| Stock | 1620000 |
| Office expenses | 204000 |
| Selling and distribution expenses | 460000 |
| 6\% debentures - 2011 (issued in 2001) | 486000 |
| Debenture interest paid | 100000 |
| Profit on sale of motor vehicle | 3000 |
| Profit and loss account balance - 1 May 2005 | 2000 |
| Debtors | 143600 Cr |
| Creditors | 132000 |
| Bank | 116000 |
| Cash | 26800 Cr |
| Share premium | 400 |
| Interim dividend paid - ordinary shares | preference shares |
| Provision for doubtful debts | 150000 |

Additional information at 30 April 2006:
Office expenses prepaid $\$ 8000$
Selling and distribution expenses accrued \$23000
Provision for doubtful debts to be maintained at $2 \%$ of debtors
Depreciation to be provided as follows:
Motor vehicles $50 \%$ per annum reducing (diminishing) balance
Fixtures and fittings $20 \%$ per annum on cost
The following are proposed:
Final dividend of $\$ 0.10$ per share to be paid to ordinary shareholders Remaining dividend due is to be paid to preference shareholders.

## REQUIRED

(a) Prepare Peter Jordan plc's Profit and Loss and Appropriation Account for the year ended 30 April 2006.
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[^0](b) Prepare Peter Jordan plc's Balance Sheet at 30 April 2006.
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(c) (i) Calculate the current ratio at 30 April 2006 to two decimal places.
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(ii) Calculate the acid test (quick) ratio at 30 April 2006 to two decimal places.
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(iii) Explain the uses of these two ratios, using Peter Jordan plc as an example.
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2 The Netherdale Sports Club's Receipts and Payments Account shows the following transactions for the year ended 30 April 2006.

|  | $\$$ |  | $\$$ |
| :--- | ---: | :--- | ---: |
| RECEIPTS |  | PAYMENTS | 3000 |
| Balance b/d | 20000 | National club fees | 51000 |
| Subscriptions | 72000 | Restaurant supplies | 50000 |
| Restaurant takings | 108000 | Purchase of clubhouse | 2200 |
| Annual dance | 8900 | Loan interest | 14000 |
| Sale of equipment | 6000 | Purchase of equipment | 22000 |
| Loan to purchase clubhouse | 20000 | Restaurant wages | 12400 |
|  |  | Repairs and maintenance | 4950 |
|  |  | Annual dance | Administration of annual dance |

When the club's bank statements for the year ended 30 April 2006 were studied, the following were discovered.
(i) Bank interest of $\$ 100$ for the year had been credited in the bank statement but no entry appeared in the receipts and payments account.
(ii) Electricity was paid by direct debit at $\$ 1000$ per month but the entry for January 2006 had been omitted from the receipts and payments account.
(iii) $\$ 4000$ had been banked for restaurant takings on 30 April 2006. This had been entered in the receipts and payments account but did not appear on the bank statement.
(iv) A cheque for $\$ 2800$ for repairs and maintenance, posted on 29 April 2006, was included in the receipts and payments account but had not yet been presented to the bank for payment.
Balance b/d

## REQUIRED

(a) (i) Update the Netherdale Sports Club's Receipts and Payments Account.
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(ii) Prepare a bank reconciliation statement at 30 April 2006 to reconcile the bank statement with the updated receipts and payments balance.
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## Additional information:

(i) Net book value of the equipment owned on 1 May 2005 was $\$ 56000$ and the equipment sold during the year ended 30 April 2006 had a net book value of $\$ 4000$.
(ii) Depreciation on equipment is provided at $20 \%$ reducing (diminishing) balance, with a full year's depreciation written off in the year of purchase and none in the year of sale.
(iii) The club's other assets and liabilities were as follows:

|  | 1 May 2005 | 30 April 2006 |
| :--- | :---: | :---: |
|  | $\$$ | $\$$ |
| Restaurant stock | 7600 | 9400 |
| Creditors for restaurant supplies | 4400 | 5200 |
| Subscriptions in arrears | - | 1800 |
| Subscriptions in advance | 2000 | 1400 |
| Fixtures and fittings | 21400 | 20800 |

There were no purchases or sales of fixtures and fittings during the year.

## REQUIRED

(b) (i) Prepare a Restaurant Trading Account for the year ended 30 April 2006. Depreciation, repairs and maintenance and electricity are not to be included in this account.
(ii) Prepare an Income and Expenditure Account for the year ended 30 April 2006.
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(c) State three reasons why, for most clubs, a Receipts and Payments Account is not always a satisfactory record of the club's activities.
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3 Hoi Poloi plc makes 3 types of filing cabinet, four-drawer, three-drawer and two-drawer. The business uses general purpose machines which are equally suitable to be used in the manufacture of all three products.

Data for the year ended 30 April 2005 was as follows:

|  | four <br> drawer | three <br> drawer | two <br> drawer |
| :--- | :---: | :---: | :---: |
|  | $\$$ | $\$$ | $\$$ |

It had been proposed that the three-drawer cabinet be discontinued, as it was making a loss.

## REQUIRED

(a) State whether this proposal should have been agreed, giving your reasons.
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Sales and cost data for the year ended 30 April 2006 were as follows:

|  | four <br> drawer | three <br> drawer | two <br> drawer |
| :--- | :---: | :---: | :---: |
| Sales in units | 15000 | 6000 | 30000 |
| Raw materials | $\$ 12$ | $\$ 8$ | $\$ 4$ |
| Variable overheads | $\$ 3$ | $\$ 2$ | $\$ 2$ |
| Unit contribution | $\$ 7$ | $\$ 6$ | $\$ 5$ |
| Machine hours per unit | 0.5 | 0.5 | 0.4 |
| Machine operators are paid $\$ 10$ per hour. | $\$ 98000$ | $\$ 48000$ | $\$ 135000$ |
| Allocation of fixed costs |  |  |  |

## REQUIRED

(b) Calculate the selling price per unit for each product.
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(c) Calculate for each product the break-even point in both units and sales value.
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(d) Calculate for each product the profit or loss for the year ended 30 April 2006.
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To try to improve profits for the year ending 30 April 2007, it has been suggested that a better quality, more easily worked, raw material be purchased. This would increase the cost of raw materials by five percent ( $5 \%$ ) but would offer savings of ten percent ( $10 \%$ ) on labour. Sales and other costs would remain unchanged.

## REQUIRED

(e) Calculate for each product and in total the profit or loss if this suggestion is put into effect.
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