Centre Number	Candidate Number	Name

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

ACCOUNTING **9706/02**

Paper 2 Structured Questions

May/June 2004

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 in the spaces provided on the Question Paper.
You may use a soft pencil for rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
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.
You may use a calculator.

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

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1	
2	
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Total	

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

1 The final accounts of Jarvis, Cocker and Co Ltd for two years were as follows.

Trading and Profit and Loss Accounts for years ended 31 December

		2002		**2003**
	$000	$000	$000	$000
Sales		2700		3600
less Cost of Sales				
Opening stock	110		120	
Purchases	1900		3140	
	2010		3260	
less Closing stock	120	1890	530	2730
Gross Profit		810		870
less Operating expenses		426		468
Profit before interest		384		402
Interest payable		84		84
Net Profit		300		318
Dividends payable	126		138	
Transfer to General Reserve	162	288	174	312
Retained profit for year		12		6
Retained profit b/f		72		84
Retained profit c/f		84		90

Balance Sheets as at 31 December

			2002			**2003**
	$000		$000	$000		$000
Fixed Assets at Net Book Value			2790			3216
Current Assets						
Stock	120			530		
Debtors	456			882		
Bank	192	768		- - -	1412	
Current Liabilities						
Creditors	192			730		
Dividends due	126			138		
Interest due	84			84		
Bank	- - -	402		340	1292	
Net Current Assets			366			120
			3156			3336
Financed by						
Ordinary Share Capital (Fully Paid)			1800			1800
General Reserve	432			606		
Retained Profits	84		516	90		696
10% Debentures			840			840
			3156			3336

All sales and purchases were on credit.

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REQUIRED

(a) For each year calculate the following to **two** decimal places (show your working in the boxes):

	2002	2003
(i) Acid test (liquid/quick) ratio		
(ii) Stock turnover		
(iii) Debtors collection period		
(iv) Gross profit ratio		
(v) Net profit ratio		
(vi) Return on capital employed		

[12]

(b) Comment on the changes in the Company from 2002 to 2003, stating for **each** ratio whether it is better or worse, and why.

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(c) Comment briefly on the advantages and disadvantages of using ratios.

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2 Titus and Ronicus entered into partnership on 1 October 2003. Their partnership agreement contained the following information:

1 Interest on partners' capital accounts to be credited at 5% on the year end balance.
2 Interest on partners' cash drawings to be charged at 5% on the year end balance.
3 The Profit or Loss sharing ratio to be in the same ratio as the agreed values of the businesses transferred to the partnership, ie Titus, \$45 000 and Ronicus, \$30 000.
4 Ronicus is to be credited with a partnership salary of \$20 000 per annum.
5 Capital accounts and Current accounts to be maintained for each partner.
6 A Goodwill account is not maintained in the firm's books.
7 The following assets and liabilities were transferred to the partnership with effect from 1 October 2003:

	Titus	Ronicus
	\$	\$
Fixtures and fittings	20 000	5 000
Motor vehicles	10 000	6 000
Stock		14 000
Debtors		4 700
Creditors		2 600

REQUIRED

(a) Prepare the partners' Capital accounts for the year ended 30 September 2004, in columnar format.

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The following information was extracted from the partnership accounts for the year ended 30 September 2004.

		$
Net profit for the year		56 000
Partners' drawings –	Titus	9 000
	Ronicus	5 000

Both partners had taken goods for their own use from the business, Titus, $600, and Ronicus, $450, at cost. This had not been taken into account in the partnership books.

REQUIRED

(b) Prepare the Partnership Profit and Loss Appropriation account for the year ended 30 September 2004.

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(c) Prepare the partners' Current accounts for the year ended 30 September 2004, in columnar format.

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3 Bilanben Ltd manufactures grass-cutting equipment. The following was the cost of production for the year ended 31 December 2003, based on a normal capacity of 4500 units.

	$
Direct Materials	157 500
Direct Labour	270 000
Variable Overheads	54 000
Fixed Overheads	125 000
	606 500

There are 30 production workers who each work a 30-hour week and have two weeks unpaid holiday per annum.

Additional costs, based on a production of 5000 units, are administrative overheads of $140 000, of which 50% are fixed, and $150 000 for advertising.
Selling price is $250 per unit.

The Sales Director has suggested that during 2004 he can sell 5000 units at $250 each.
There are **three** options to fulfil this requirement.

Option 1
To introduce overtime. This would require a pay rise of 50% per hour after the normal 30 hours. There would also be an additional cash payment of $1.50 for each extra hour worked.

Option 2
To hire new machinery for one year at a cost of $50 000. This would leave all variable costs unchanged. This was already under consideration and $17 500 had been spent on market research.

Option 3
To buy in the extra units at a cost of $200 each.

REQUIRED

(a) Calculate the net profit on the 2003 production of 4500 units, assuming all were sold.

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(b) Prepare statements showing the profitability of **each** of the three options.

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(c) Write a brief statement comparing the three options.

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