CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ACCOUNTING   **9706/2**

PAPER 2 Structured Questions

MAY/JUNE SESSION 2002

1 hour 30 minutes

Candidates answer on the question paper.
No additional materials are required.

TIME   1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper. If you require extra space for your answers or workings, use pages 15 and 16.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

You may use a calculator.

This question paper consists of 14 printed pages and 2 lined pages.

UNIVERSITY *of* CAMBRIDGE
Local Examinations Syndicate

[Turn over

1 The Happy Elephant Warehousing Company Ltd is an old family-run business which is expanding its operations and has therefore purchased premises to add to its existing rented warehouses.

The following figures are end of the year balances.

	Years ended 31 August		
	1999	2000	2001
	$000	$000	$000
Fittings at cost	33	40	173
Provision for depreciation on fittings	10	14	31
Depreciation for the year on fittings	3	4	7
Net sales	450	510	640
Cost of sales	350	423	577
Trade debtors	18	25	21
Trade creditors	36	47	73
Long term loan (from 1 June 2001)	–	–	68
Cash at bank	51	45	–
Bank overdraft	–	–	52
Stock	44	49	107
Rent paid	10	11	12
General expenditure	53	60	66
Loan interest due and paid	–	–	5
Share capital	60	60	80
Proposed dividends	14	14	–

Profit and Loss Account balance of $6000 (Cr) was brought forward on 1 September 1998.

(a) Prepare, in columnar format, the Profit and Loss and Appropriation Accounts for each of the three years ended 31 August 1999, 2000 and 2001.

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....3..

....

....[8]

[Turn over

(b) Prepare, in columnar format, Balance Sheets as at 31 August 1999, 2000 and 2001.

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

....

[Turn over

....

....

....

....

....

....

....

....

....[14]

(c) Identify and comment on **four** trends shown in the company's results for the three years.

....

....

....

....

....

....

....

....

....

....[8]

2 Janice Jersey's first 6 months of trading showed the following purchases and sales of stock:

1990	Purchases	Sales
January	280 @ $65 each	
February		140 @ $82 each
March	100 @ $69 each	
April		190 @ $85 each
May	220 @ $72 each	
June		200 @ $90 each

Calculate Janice's profit for the 6 months ended 30 June 1990 using the following methods of stock valuation:

(a) FIFO (First In First Out)

....

....

....

....

....

....

....

....

....

....

....[7]

[Turn over

(b) LIFO (Last In First Out)

....

....

....

....

....

....

....

....

....

....[4]

(c) AVCO (Weighted Average Cost). Calculate to 2 decimal places.

....

....

....

....

....

....

....

....

....

....[5]

Janice's Trading and Profit and Loss Account for the year ended 30 April 2001 was as follows:

	$	$
Sales		290 000
less Cost of Sales		
Opening Stock	31 000	
Purchases	169 000	
	200 000	
less Closing Stock	26 000	174 000
		116 000
Expenses		87 000
Net Profit		29 000

At 1 May 2001 Janice reduced all selling prices by 10%, which increased her sales volume for the following year by $7\frac{1}{2}$%. She also decreased her expenses by $2\frac{1}{2}$%. Her purchases for the year ended 30 April 2002 were $170 000 and closing stock was valued at $21 000.

(d) Calculate Janice's net profit ratio for the year ended 30 April 2001 and for year ended 30 April 2002. Show all calculations.

....

....

....

....

....

....

....

....

....[8]

(e) Discuss the consequences of the changes in Janice's policy.

....

....

....

....

....

....[3]

[Turn over

(f) Janice achieved her decrease in expenses by altering her method of depreciation.

Comment on this change.

....

....

....

....

....

....[3]

3 Barkis & Co Ltd manufacture specialised containers for use under water. The business uses two machines. These machines have different levels of efficiency.
The following information applies to production and costs:

Machine	X	Y
Hourly rate of production	160	250
Material cost per unit	$5.00	$4.60
Hourly labour rate	$10	$10
Number of operatives	4	5
Fixed costs per order	$200	$500
Variable unit costs	$2.40	$2.60

Orders have been received from different customers for **(a)** 800 and **(b)** 1000 containers. Which machine should be used for each order, in order to minimise cost? Orders may not be split between machines, but the same machine may be used for more than one order.

(a) Order 123/P for 800 containers

....

....

....

....

....

....

....

....

....

....

....

....

....

....[9]

[Turn over

(b) Order 382/Q for 1000 containers

....

....

....

....

....

....

....

....

....

....

....

....

....

....[7]

(c) Calculate the contribution to be made for order number 123/P to make a profit of 25% on total cost, using each machine.

(i) Machine X ....

....

....

....

....

....

....

....

(ii) Machine Y ....

....

....

....

....

....

....

....

[8]

[Turn over

(d) Barkis & Co Ltd require more funds to purchase an additional machine to complete further orders. Three methods of doing so have been discussed:

   (i) a rights issue;

  (ii) an issue of shares to the public;

 (iii) an issue of debentures.

Give **one** advantage and **one** disadvantage of each method.

....

....

....

....

....

....

....

....

....

....

....

....

....

....[6]