

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
°			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.



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	2012	010
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	iterials	194
Labour		153
Electricity		25
Carriage inwards		6
Carriage outwards		22
Rent		60
Salaries		14
Sundry expenses		12
Insurances		18

Additional information:

Inventories at 31 March 2013 were:		
Raw materials	\$18 000	
Work in progress	\$15 000	
Finished goods	\$41 000	
	Raw materials Work in progress	

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.

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

(b)	Prepare the income statement for the year ended 31 March 2013.	For Examiner's
		Use
	[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	
		[2]	
	(iii)	Dividend payable on non-cumulative preference shares	
		וסו	
	(1)./	[2] Interest payable on debentures.	
	(iv)	interest payable on dependies.	
		[2]	
		[2] [Total: 30]	

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

Revenue Ordinary goods purchased Profit from operations	\$ 200 000 145 000 22 500
Reid's balances at 31 December 2012 v	were:
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

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

(iv)	Operating expenses to revenue ratio
	[3]
(v)	Current ratio
	[3]
	[0]
(vi)	Acid test/liquid ratio
	101
	[3]
(vii)	Non-current asset turnover.
	[3]

For Examiner's Use

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.

[5] (c) State two limitations of the uses of ratios. 1 2 [4] [Total: 30] For Examiner's Use His transactions for the first three months of 2013 were:

Date		Purchases (units)	Purchase price (per unit)	Sales (units)
Jan	8	100	¢20.00	30
	10 12	100	\$30.00	80
	21	120	\$30.50	00
	28			90
Feb	1		Aa (aa	50
	14 23	150	\$31.00	100
March	1			30
	4 19	120	\$31.50	120
	23	100	\$32.00	120
	27			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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For Examiner's Use

(i) FIFO

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

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	•••••
	[9]
[Tota	al: 30]

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