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

October/November 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	
1	
2	
3	
Total	

This document consists of **13** printed pages and **3** blank pages.

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[Turn over

1 Frank and Ernest have been in partnership for some years, sharing profits and losses in the ratio 2 : 1. The partnership Balance Sheet at 31 January 2006 was as follows:

Balance Sheet at 31 January 2006

		$	$	$
Fixed Assets at Net Book Value				
Motor vehicles			58 200	
Equipment			35 400	
Fixtures and fittings			39 000	132 600
Goodwill				10 000
				142 600
Current Assets				
Stock		64 000		
Trade debtors		45 600		
Bank		19 200	128 800	
Amounts due within 1 year				
Trade creditors			22 400	
Net current assets				106 400
				249 000
Capital accounts	Frank	80 000		
	Ernest	120 000		200 000
Current accounts	Frank	35 400		
	Ernest	13 600		49 000
				249 000

Frank and Ernest, who had been renting business premises, accepted an offer by Devious to move to his premises on 1 February 2006 on condition that he would be accepted into the partnership on that date.

Additional information:

1 The new partnership commenced on 1 February 2006 with Frank, Ernest and Devious sharing profits and losses in the ratio 2 : 1 : 1.

2 The new partnership took ownership of Devious's premises on 1 February 2006 at a valuation of $196 000.

3 Goodwill was revalued at 1 February 2006 at $30 000 but would not be shown in the balance sheet in the future.

4 Equipment was revalued at $34 100 on 1 February 2006.

5 Stock at 1 February 2006 was valued at $63 000.

6 Current Accounts will remain separate.

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REQUIRED

(a) (i) Prepare the partnership Goodwill account at 1 February 2006 following the amendments.

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(ii) Prepare the partnership Revaluation account at 1 February 2006 following the amendments.

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(iii) Prepare Capital accounts for Frank, Ernest and Devious, in columnar format.

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(iv) Prepare the Balance Sheet of Frank, Ernest and Devious at 1 February 2006.

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For Examiner's Use

(b) Discuss the treatment of Goodwill in partnership accounts, with particular reference to retiring and incoming partners.

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[Total: 30]

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2 The following balances occur in Delboi's books of account at 30 September 2006.

	$000
Purchases	154
Sales	240
Stock at 1 October 2005	24
Fixed assets	77
Debtors	31
Creditors	33
Bank	15 (dr)
Long-term loan from bank at 10% per annum	20
Loan interest paid	1
Operating costs	62
Drawings	20
Capital	?

Additional information:

Stock at 30 September 2006 was valued at $12 000.

From the above information the following trading and profit and loss account has been prepared.

Trading and Profit and Loss Account for year ended 30 September 2006

	$000	$000
Sales		240
Less cost of sales		
Opening stock	24	
Purchases	154	
	178	
Closing stock	12	166
Gross profit		74
Operating costs	62	
Loan interest	2	64
Net Profit		10

For Examiner's Use

REQUIRED

(a) Prepare Delboi's Balance Sheet at 30 September 2006, showing his net current assets.

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(b) Calculate the following to **two** decimal places.

(i) Net profit ratio ....

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(ii) Current ratio ....

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(iii) Acid test (quick) ratio ....

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(iv) Rate of Stockturn ....

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(v) Return on owner's capital employed ....

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(vi) Return on total capital employed ....

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(vii) Debtors' collection period in days ....

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(viii) Creditors' payment period in days ....

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Delboi's gross profit ratio for the year ended 30 September 2006 is 30.83 %, but has in previous years been constant at 35 %. He discovers that his new assistant, Rodders, is stealing goods.

REQUIRED

(c) Calculate, at cost price, the value of goods that Rodders is stealing.

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REQUIRED

(d) State and explain **one** advantage and **one** disadvantage of using ratio analysis as a means of evaluating performance.

(i) Advantage ....

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(ii) Disadvantage ....

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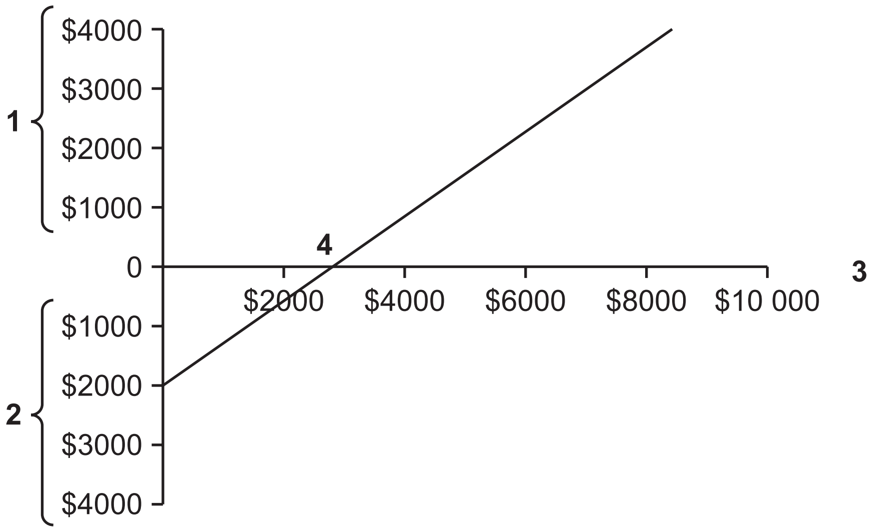
[Total: 30]

3 The following Contribution/Sales chart was prepared for Larry Ltd for the first year of business.

Larry Ltd – Profit (Contribution/Sales) Chart



Selling price is $30 per unit
Fixed costs (shown) $2000
Variable costs are $9.00 per unit
All of the output of 300 units is sold.

REQUIRED

(a) (i) State what **each** of the numbers **1**, **2**, **3** and **4** on the chart represent.

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4 .... [4]

(ii) Calculate the break-even point in both units and sales value. The formula for your calculations **must** be shown.

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(iii) Define and explain margin of safety.

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(iv) Calculate the margin of safety in units **and** in value.

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In the second year of business, expected production and sales is 400 units, and fixed costs are expected to rise by 15 %. Selling price and variable costs will remain as before.

REQUIRED

(b) (i) Calculate the anticipated profit in the second year of business.

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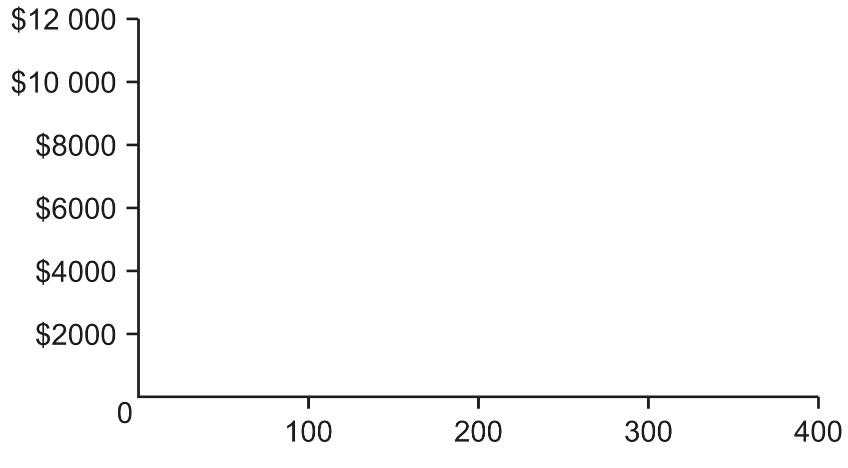
(ii) Prepare a break-even chart for the second year of business.



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REQUIRED

(c) State **four** assumptions made when using break-even charts.

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[Total: 30]

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