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

CANDIDATE NAME	

CENTRE NUMBER		CANDIDATE NUMBER	

6483509957

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 2013**

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.
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 **11** printed pages and **1** blank page.

UNIVERSITY *of* CAMBRIDGE International Examinations

1 Booksellers Limited prepared the following trial balance for the year ended 31 December 2012:

	$000	$000
Gross profit for the year		415
Wages and salaries	127	
Rent	44	
Heating and lighting	15	
Motor expenses	50	
Office expenses	19	
Insurance	15	
Discount allowed	2	
Other expenses	53	
Inventory at 31 December 2012	37	
Trade receivables	45	
Provision for doubtful receivables		4
Bank	37	
Trade payables		15
Goodwill	44	
Motor vehicles at cost	176	
Shop fittings at cost	42	
Office fittings at cost	25	
Provision for depreciation on motor vehicles		46
Provision for depreciation on shop fittings		12
Provision for depreciation on office fittings		3
5% Debentures		20
Ordinary share capital		190
Retained earnings		26
	731	731

Additional information:

1 Wages owing amounted to $23 000 at 31 December 2012.
2 Debenture interest for the year had not been paid.
3 Bad debts of $5000 were to be written off.
4 The provision for doubtful receivables was to be 5% of trade receivables.
5 Depreciation was provided on motor vehicles at 12½% on cost and on shop fittings at 10% on net book value.
6 Office fittings had been revalued at $19 000.
7 Rent paid in advance was $8000.

REQUIRED

For Examiner's Use

(a) (i) Prepare an income statement for the year ended 31 December 2012.

[12]

(ii) Calculate the retained earnings of Booksellers Limited at 31 December 2012.

For Examiner's Use

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(b) Prepare, in as much detail as possible, a statement of financial position at 31 December 2012.

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For Examiner's Use

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(c) (i) The directors wish to raise funds to expand the business. State **two** sources of finance they could use.

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(ii) State the advantages and disadvantages to the company of the **two** sources of finance you have chosen.

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[Total: 30]

2 **(a)** Complete the following table stating the formula used to calculate the ratio, what the ratio measures and reasons why it may change.

For Examiner's Use

Ratio	Formula	What the ratio measures	Why the ratio may change
Gross profit ratio			
Inventory turnover			
Quick (acid test) ratio			
Return on capital employed			
Trade receivables turnover			

[20]

(b) State and explain **five** limitations of using ratio analysis as an indicator of business performance.

For Examiner's Use

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[Total: 30]

3 Shostakovich Limited is a wholesale business selling three products: Preludes, Fugues and Sonatas.

For Examiner's Use

At present they use the FIFO method of inventory valuation but are considering a change.

At 31 March 2013, Shostakovich Limited provisionally calculated its profit for the year at $86 300 using closing inventory valued at $10 200 under the FIFO method.

The following information is also available at 31 March 2013:

1 Different methods of inventory valuation for the three products provide the following closing inventory values:

	FIFO	AVCO
	$	$
Preludes	4600	4300
Fugues	3900	3750
Sonatas	1700	1500

2 Owing to a flood during the financial year it has been found that the total inventory of Sonatas has been damaged. It is estimated that the inventory could be sold by Shostakovich Limited at a selling price of $1200. This adjustment has not been accounted for in the inventory calculated above.

REQUIRED

(a) (i) Calculate the revised inventory valuation at 31 March 2013 using FIFO and AVCO.

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For Examiner's Use

(ii) Calculate the revised profit for the year at 31 March 2013 using FIFO and AVCO.

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(b) Explain **three** reasons why a business cannot normally use the latest selling price of its products to value the inventory.

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For Examiner's Use

(c) Advise Shostakovich Limited on why the distinction between capital and revenue expenditure is important when preparing financial statements.

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Shostakovich Limited's statement of financial position at 31 March 2013 showed the following:

	$
Property	200 000
Accumulated depreciation	14 000

The value of the property is split equally between land and buildings. They had been owned for 7 years. On 1 April 2013 its property was revalued at $315 000.

REQUIRED

(d) (i) Prepare the journal entry to record this revaluation. A narrative is **not** required.

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(ii) Name the section in Shostakovich Limited's financial statements where the surplus will appear.

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For Examiner's Use

(iii) Shostakovich Limited will continue to use the same rate of straight line depreciation for its buildings. Calculate the depreciation charge for the year on buildings after the revaluation.

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[Total: 30]

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