

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

CANDIDATE
NAME
CENTRE
NUMBER


## CANDIDATE

 NUMBER

## ACCOUNTING

9706/02

Paper 2 Structured Questions
May/June 2007
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.
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 11 printed pages and 1 blank page.

1 The following balances were extracted from Aurora's accounts at 31 March 2007.
$\$ 000$
Sales ..... 3200
Purchases of raw materials ..... 450
Purchases returns ..... 18
Carriage inwards ..... 10
Direct labour ..... 400
Direct overheads ..... 60
Rent ..... 40
Electricity ..... 30
Insurance ..... 55
Factory supervision salaries ..... 65
Office salaries ..... 70
Indirect factory wages ..... 13
Factory cleaning ..... 50
Office cleaning ..... 50
Stocks at 1 April 2006: ..... 110
Work in progress ..... 55
Finished goods ..... 80
Factory machinery at cost ..... 640
Provision for depreciation on factory machinery ..... 280
Additional information at 31 March 2007:
$\$ 000$
Rent prepaid ..... 5
Electricity accrued ..... 15
Insurance prepaid ..... 10
Stocks - Raw materials ..... 140
Work in progress ..... 75
Finished goods ..... 170

Depreciation on factory machinery is to be provided at $25 \%$ per annum reducing balance.
Rent, electricity and insurance are apportioned on the basis of $80 \%$ to factory and $20 \%$ to office.

Finished goods are transferred to the trading account at total factory cost plus one third.

## REQUIRED

(a) Prepare Aurora's manufacturing account for the year ended 31 March 2007.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(b) Prepare Aurora's trading account for the year ended 31 March 2007.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$

2 Archie Pelago buys and sells a single product. His first three months of trading showed the following purchases and sales.

| 2005 | Purchases | Sales |
| :--- | :--- | :--- |
| February | 300 @ \$25 | 150 @ \$35 |
| March | 120 @ \$27 | 210 @ \$38 |
| April | 240 @ \$29 | 205 @ \$41 |

For the following requirements either perpetual or periodic inventory may be used. Calculations should be taken to a maximum of two decimal places.

## REQUIRED

(a) Calculate Archie's closing stock at 30 April 2005 using the FIFO (first in first out) method of stock valuation.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(b) Calculate Archie's closing stock at 30 April 2005 using the LIFO (last in first out) method of stock valuation.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(c) Calculate Archie's closing stock at 30 April 2005 using the AVCO (weighted average cost) method of stock valuation.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(d) Calculate Archie's gross profit using each of the above methods of stock valuation.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$

Archie Pelago's balance sheets at 30 April 2006 and 2007 were as follows:

|  | 30 April 2006 |  |  | 30 April 2007 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | \$ | \$ | \$ | \$ | \$ | \$ |
| Fixed assets (Net book value) |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Premises |  |  | 100000 |  |  | 100000 |
| Equipment |  |  | 75000 |  |  | 56500 |
|  |  |  | 175000 |  |  | 156500 |
| Current assets |  |  |  |  |  |  |
| Stock | 7500 |  |  | 6800 |  |  |
| Debtors | 10800 |  |  | 8900 |  |  |
| Bank | 2000 |  |  | - |  |  |
| Cash | 400 | 20700 |  | 400 | 16100 |  |
| Current liabilities |  |  |  |  |  |  |
| Creditors | 6200 |  |  | 7300 |  |  |
| Bank | - |  |  | 1200 |  |  |
|  |  | 6200 |  |  | 8500 |  |
| Net current assets |  |  | 14500 |  |  | 7600 |
|  |  |  | $\underline{\underline{189500}}$ |  |  | $\underline{\underline{164100}}$ |
| Capital at 1 May 2006 |  |  | 120000 |  |  | 189500 |
| Net profit (loss) |  |  | 83500 |  |  | (11400) |
|  |  |  | 203500 |  |  | 178100 |
| Less drawings |  |  | 14000 |  |  | 14000 |
|  |  |  | $\underline{\underline{189500}}$ |  |  | $\underline{164100}$ |

## REQUIRED

(e) For each year, calculate to a maximum of two decimal places:
(i) the current ratio;
(ii) the liquid ratio.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(f) From your calculations in (e) and the balance sheets given in the question discuss briefly Archie's financial status on 30 April 2007 compared to 30 April 2006.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$

3 Fernando manufactures 3 types of refrigerator for Household, Business and Factory use. The following data apply to the year ended 30 April 2007.

|  | Household | Business | Factory | Total |
| :---: | :---: | :---: | :---: | :---: |
| Sales (units) | 2400 | 900 | 2250 | 5550 |
|  | \$ | \$ | \$ | \$ |
| Total sales value | 240000 | 108000 | 360000 | 708000 |
| Total costs |  |  |  |  |
| Direct material | 96000 | 45000 | 112500 | 253500 |
| Direct labour | 72000 | 28800 | 94500 | 195300 |
| Variable overheads | 24000 | 13500 | 45000 | 82500 |
| Fixed overheads | 57600 | 27000 | 67500 | 152100 |
|  | $\underline{\underline{249600}}$ | $\underline{114300}$ | 319500 | 683400 |
| Profit (loss) | (9600) | (6300) | 40500 | 24600 |

## REQUIRED

(a) For the year ended 30 April 2007 calculate for each type of refrigerator:
(i) the contribution per unit;
(ii) the contribution as a percentage of sales.

Give answers to a maximum of two decimal places. Workings must be shown.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(b) Calculate the break-even point for each type of refrigerator in both units and dollars. Give your answers to the nearest whole number. Workings must be shown.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(c) The table at the beginning of the question shows that both the Household and the Business models appear to be making a loss. Explain why Fernando should not cease production of these two types of refrigerator.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$

## BLANK PAGE

University of Cambridge International Examinations is part of the Cambridge Assessment Group. Cambridge Assessment is the brand name of University of Cambridge Local Examinations Syndicate (UCLES), which is itself a department of the University of Cambridge

