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

CANDIDATE NAME	

CENTRE NUMBER						CANDIDATE NUMBER					

4324142779

ACCOUNTING **9706/23**

Paper 2 Structured Questions **October/November 2010**

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.
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.

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1	
2	
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Total	

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1A James and Gemma are in partnership. They have provided the following information.

A balance sheet extract at 31 December 2008 showed the following balances:

	$
Capital Accounts	
James	90 000
Gemma	60 000
Current Accounts	
James	12 000 (Cr)
Gemma	9 000 (Cr)
Inventory (stock)	6 300
Non-current (fixed) assets at cost	204 000
Loan	45 000

The partnership agreement provides for:

Interest on capital at 8% per annum.
No interest on drawings
A salary to Gemma of $6000 a year
Profits and losses to be shared equally

On 1 July 2009 James introduced a further $25 000 to increase his fixed capital. This money was used to purchase additional non-current (fixed) assets on that date.

At 31 December 2009 the following information was available for the partnership.

	$
Revenue (sales) 1 January 2009 – 30 June 2009	90 000
Revenue (sales) 1 July 2009 – 31 December 2009	150 000
Ordinary goods purchased (purchases) 1 January 2009 – 30 June 2009	70 000
Ordinary goods purchased (purchases) 1 July 2009 – 31 December 2009	104 000

Additional information

1 Mark up was 50% on cost.

2 Total expenses for the year were $25 525.
These included depreciation on non-current (fixed) assets at 5% per annum (charged on cost for each proportion of the year) and the interest on the loan at 6% per annum.

The remaining expenses were split equally for each half of the year.

3 There are no accruals or prepayments at the end of the year.

4 Drawings for the year were:

	$
James	15 200
Gemma	18 300

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REQUIRED

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(a) Assuming each month is of equal length prepare the income statement (profit and loss account) and appropriation account for

(i) the six month period ended 30 June 2009.

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(ii) the six month period ended 31 December 2009.

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(b) Prepare the current accounts in columnar form for both partners for the year ended 31 December 2009.

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(c) State **three** advantages for James and Gemma of trading as a partnership rather than as sole traders.

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1B Fred owns a general trading business. The following balances were extracted from his books at 30 April 2010.

	$
Revenue (sales)	300 000
Opening inventory (stock)	18 000
General expenses	36 000
Trade payables (creditors)	64 000
Trade receivables (debtors)	60 000
Cash and cash equivalents (bank)	3 000
Closing capital	500 000

Additional information

1 The gross profit margin is 20%

2 There were no other current assets and current liabilities at the year end.

3 Closing inventory (stock) was valued at $22 000.

REQUIRED

(a) Calculate the following ratios for Fred. Give your answer to **two** decimal places.

Show **all** workings.

(i) Inventory (stock) turnover

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(ii) Return on capital employed

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(iii) Liquid ratio (acid test)

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[Total 30]

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2 Paula Bridgewater, a retailer, supplied the following information on purchases and sales for the month of February 2009.

At 1 February 2009 Paula Bridgewater had an opening inventory (stock) of 500 units valued at $14 each.

Date	Purchase of goods for resale (purchases)		Revenue (sales)	
	Quantity (units)	Cost price per unit ($)	Quantity (units)	Selling price per unit ($)
February 2	2 000	15		
3			2 300	30
10	1 500	18		
14			1 300	32
18	2 000	20		
19			2 100	34

REQUIRED

(a) Calculate the closing inventory (stock) valuation at 28 February 2009 using the FIFO method of inventory (stock) valuation (perpetual).

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(b) Prepare the income statement (trading account) for the month of February 2009 using the FIFO method of inventory (stock) valuation (perpetual).

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(c) Advise Paula Bridgewater how the inventory (stock) should be valued in the final accounts. Give reasons for your advice.

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Paula Bridgewater continued trading throughout the remainder of 2009.

On 31 December 2009 her entire inventory (stock) together with all of her non-current (fixed) assets were destroyed by fire.

Some of her business records had also been destroyed but the following information is available.

1 When stocktaking last took place on 31 October 2009 the balance of inventory (stock) was $11 700.

Ordinary goods purchased (purchases) between 1 November 2009 and 31 December 2009 amounted to $22 600.

Revenue (sales) made for cash and on credit during this period amounted to $36 200.

All revenue (sales) was made at a uniform profit margin of 25% and all purchases were on credit.

2 Information available from Paula Bridgewater's Balance Sheet at 31 October 2009 included:

Non-current (fixed) assets	Cost	Depreciation	Net Book Value
	$	$	$
Fixtures and Fittings	6 000	2 160	3 840
Current assets			
Inventory (stock)	11 700		
Trade receivables (debtors)	2 400		

3 Paula Bridgewater depreciates her fixtures and fittings at 20% per annum using the straight line method assuming a residual value of $600.

4 Also at that date the bank statement showed cash at the bank of $620.

5 Paula Bridgewater's cash book showed receipts from trade receivables (debtors) for the two month period to be $4 300.

Her invoices to customers supplied on credit over the same period totalled $6 500.

6 One of the trade receivables (debtors) who owed $600 had gone bankrupt in the last week of December and Paula had decided to write off this amount.

7 Paula does not offer any discount to her customers for prompt payment.

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REQUIRED

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(d) Calculate the cost of the inventory (stock) destroyed by the fire.

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(e) Calculate the net book value of the fixtures and fittings at 31 December 2009 (immediately prior to the fire) assuming depreciation is charged equally throughout the year.

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(f) Calculate the trade receivables (debtors) total to be included in the balance sheet at 31 December 2009.

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[Total 30]

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3 Mandar Limited manufactures components for the agricultural industry. The following budgeted information is available for the year ended 30 April 2009.

		$	$
Direct materials			2 300 000
Direct labour:			
Cutting department	(76 000 hours)	501 600	
Pressing department	(72 000 hours)	450 000	
Production department	(104 000 hours)	702 000	
Assembly department	(44 000 hours)	264 000	
			1 917 600
Prime cost			4 217 600
Factory overheads:			
Cutting department		364 800	
Pressing department		439 200	
Production department		509 600	
Assembly department		233 200	
			1 546 800
Cost of production			5 764 400
Administration costs			1 152 880
Total costs			6 917 280

Additional information

1 Factory overheads are absorbed by departmental direct labour hours.

2 Administration costs are absorbed as a percentage of the cost of production.

REQUIRED

(a) Calculate the following for **each** department.

(i) The budgeted direct labour cost per hour.

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(ii) The budgeted factory overhead absorption rate per direct labour hour.

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Mandar Limited has received a request for some components, Job Number SMC20.

The following direct costs have been estimated.

	$	$
Direct materials		140 156
Direct labour:		
Cutting department	13 200	
Pressing department	9 000	
Production department	16 200	
Assembly department	6 000	
		44 400
Prime cost		184 556

The direct labour costs are based on budgeted hourly rates.

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REQUIRED

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(b) Prepare a detailed statement showing the total cost of Job Number SMC20.

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(c) The selling price of Mandar Limited's components is cost plus 25%.

Calculate the selling price of Job Number SMC20.

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(d) Explain why Mandar Limited absorbs its overheads using direct labour hours.

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(e) State **two** alternative methods the business could use to absorb their overheads.

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