



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS General Certificate of Education

Advanced Subsidiary Level and Advanced Level

CANDIDATE NAME								
CENTRE NUMBER					CANDID NUMBEI			

ACCOUNTING

9706/23

Paper 2 Structured Questions

May/June 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.



1 Eagle Manufacturing Limited produces components for cars and lorries. The following figures have been taken from their books of account.

Revenue	20.40	\$000 816
Raw materials Work in progress Finished goods	2012	17 19 32
Factory machinery	– cost	420
r dotory madrimory	 accumulated depreciation 	52
Office equipment	- cost	30
	 accumulated depreciation 	10
Motor vehicles	- cost	60
	 accumulated depreciation 	34
Purchases of raw mat	erials	194
Labour		153
Electricity		25
Carriage inwards		6
Carriage outwards		22
Rent		60
Salaries		14
Sundry expenses		12
Insurances		18

Additional information:

1 Inventories at 31 March 2013 were:

Raw materials \$18 000 Work in progress \$15 000 Finished goods \$41 000

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.				
[12]				

(b)	Prepare the income statement for the year ended 31 March 2013.
	[10]

(c)	Exp	lain how the following will be affected if the company makes a loss in the year:		
	(i)	Dividend payable for cumulative preference shares		
		ro.		
		[2]		
	(ii)	Dividend payable for ordinary shares		
		rol		
		[2]		
	(iii)	Dividend payable on non-cumulative preference shares		
		[2]		
	(iv)	Interest payable on debentures.		
		[2]		
		[Total: 30]		

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

For Examiner's Use

	\$
Revenue	200 000
Ordinary goods purchased	145 000
Profit from operations	22 500
Reid's balances at 31 December 2012 we	re:
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
- Trade payables and trade receivables balances were unchanged since 1 January 2012.

REQUIRED

(a)		Iculate the following ratios, correct to two decimal places, in each case stating mula used.	the
	(i)	Mark-up	
			 [3]
			[O]
	(ii)	Inventory turnover	
			[3]
	(iii)	Trade receivables turnover	
			[3]

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

For the year ended 31 December 2011 the following ratios were:

Inventory turnover 13 times

Trade receivables turnover 70 days

For Examiner's Use

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]

3 At 1 January 2013, Brahms had opening inventory of 50 teddy bears at a purchase price of \$30 each.

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 10	100	\$30.00	30
	12			80
	21 28	120	\$30.50	90
Feb	1	450	* 04.00	50
	14 23	150	\$31.00	100
March	1			30
	4 19	120	\$31.50	120
	23	100	\$32.00	120
	27		,	120

No other transactions took place during these months. Each teddy bear was sold for \$50.

REQUIRED

va	luation.	
(i)	FIFO	
		[3]

(a) Calculate the value of the inventory at 31 March 2013 using the following methods of

	(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.	
		101	
		[2]	

(c)	State one advantage and one disadvantage of using the following methods of inventory valuation:		For Examiner's Use
	(i)	FIFO	
		[2]	
	(ii)	AVCO.	
		[2]	
(d)	me	hms currently uses FIFO to value his inventory. He is considering changing the thod to show a lower profit each year. State two reasons why he should not do this. ke reference to any relevant accounting principles, concepts and conventions.	
	1		
	2		
	•••••	[4]	1

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

For Examiner's Use

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.
	[9]
	[Total: 30]

Permission to reproduce items where third-party owned material protected by copyright is included has been sought and cleared where possible. Every reasonable effort has been made by the publisher (UCLES) to trace copyright holders, but if any items requiring clearance have unwittingly been included, the publisher will be pleased to make amends at the earliest possible opportunity.

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.