



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

CANDIDATE  
NAME

CENTRE  
NUMBER

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CANDIDATE  
NUMBER

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**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.

This document consists of **12** printed pages.



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

	\$000
Revenue	816
Inventories at 1 April 2012	
Raw materials	17
Work in progress	19
Finished goods	32
Factory machinery – cost	420
– accumulated depreciation	52
Office equipment – cost	30
– accumulated depreciation	10
Motor vehicles – cost	60
– accumulated depreciation	34
Purchases of raw materials	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.

For  
Examiner's  
Use

- [12]

For  
Examiner's  
Use

[illegible]

(c) Explain how the following will be affected if the company makes a loss in the year:

For  
Examiner's  
Use

(i) Dividend payable for cumulative preference shares

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..... [2]

(ii) Dividend payable for ordinary shares

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(iii) Dividend payable on non-cumulative preference shares

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..... [2]

(iv) Interest payable on debentures.

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..... [2]

[Total: 30]

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

	\$
Revenue	200 000
Ordinary goods purchased	145 000
Profit from operations	22 500

Reid's balances at 31 December 2012 were:

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

For  
Examiner's  
Use

**Additional information:**

- 1 80% of revenue was on credit
- 2 Inventory at 1 January 2012 was \$17 500
- 3 Trade payables and trade receivables balances were unchanged since 1 January 2012.

**REQUIRED**

- (a) Calculate the following ratios, correct to **two** decimal places, in **each** case stating the formula used.

- (i) Mark-up

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 ..... [3]

- (ii) Inventory turnover

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- (iii) Trade receivables turnover

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(iv) Operating expenses to revenue ratio

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..... [3]

(v) Current ratio

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..... [3]

(vi) Acid test/liquid ratio

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..... [3]

(vii) Non-current asset turnover.

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..... [3]

*For  
Examiner's  
Use*

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.

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- (c) State **two** limitations of the uses of ratios.

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

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

#### REQUIRED

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

- (i) FIFO

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(ii) AVCO.

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(b) Using each method of valuation, calculate the gross profit for the three months ending 31 March 2013.

(i) FIFO

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..... [5]

(ii) AVCO.

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For  
Examiner's  
Use

- (c) State **one** advantage and **one** disadvantage of using the following methods of inventory valuation:

*For  
Examiner's  
Use*

(i) FIFO

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(ii) AVCO.

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- (d) Brahms currently uses FIFO to value his inventory. He is considering changing the method to show a lower profit each year. State **two** reasons why he should not do this. Make reference to any relevant accounting principles, concepts and conventions.

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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]

[9]

**[Total: 30]**