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

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

*9065049186*

**ACCOUNTING** **9706/02**

Paper 2 Structured Questions **May/June 2008**

**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 **14** printed pages and **2** blank pages.




UNIVERSITY of CAMBRIDGE International Examinations

**[Turn over**

For Examiner's Use

1 Amah Retto's ledger accounts for the year ended 30 April 2008 showed the following balances:

| | $ |
|---|---|
| Premises at cost | 250 000 |
| Machinery at cost | 52 000 |
| Provision for depreciation on machinery at 1 May 2007 | 15 600 |
| Provision for doubtful debts at 1 May 2007 | 500 |
| Sales | 243 000 |
| Purchases | 184 000 |
| Sales returns | 2 040 |
| Purchases returns | 1 980 |
| Carriage inwards | 350 |
| Carriage outwards | 800 |
| Rent received | 2 420 |
| Discount allowed | 1 800 |
| Discount received | 1 300 |
| Electricity | 2 100 |
| General expenses | 9 340 |
| Stock at 1 May 2007 | 13 500 |
| Debtors | 9 000 |
| Creditors | 11 460 |
| Bank (Credit) | 8 260 |
| Cash | 990 |
| Drawings | 18 600 |
| Long-term loan at 11 % per annum | 60 000 |
| Capital | ? |

Additional information at 30 April 2008

1 Stock was valued at $15 100.

2 No interest had been paid or provided for on the loan, which had been taken out on 1 November 2007.

3 Amah Retto's tenant had paid only eleven months' rent; one month's rent was due and unpaid.

4 Electricity prepaid amounted to $40.

5 General expenses accrued amounted to $50.

6 Debts of $200 were to be written off.

Depreciation was to be provided on machinery at 40 % using the reducing (diminishing) balance method.

Doubtful debts provision was to be 3 % of debtors at the end of the year.

For Examiner's Use

**REQUIRED**

**(a)** Prepare Amah Retto's trading and profit and loss account for the year ended 30 April 2008.

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**(b)** Prepare Amah Retto's balance sheet at 30 April 2008.

For Examiner's Use

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**(c)** Use the answers to **(a)** and **(b)** to calculate the following ratios to **two** decimal places.

**(i)** Current ratio;

**(ii)** Liquid ratio;

**(iii)** Rate of stock turnover;

**(iv)** Gross profit as a percentage of sales;

**(v)** Net profit as a percentage of sales.

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For Examiner's Use

(d) (i) State **two** reasons for calculating ratios.

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(ii) State **four** user groups who might be interested in or make use of accounting ratios.

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**[Total: 30]**

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**Question 2 is on the next page.**

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**2 A** Marie Motiwala's draft profit and loss account for the year ended 30 April 2008 was prepared by her new book-keeper and showed a loss of $100 000. The following errors were then discovered.

1 Capital of $80 000 contributed by Marie Motiwala had been included in sales.

2 Sales returns of $20 000 had been debited to purchases returns.

3 No provision for depreciation on equipment had been charged for the year. Depreciation should have been provided for using the reducing balance method at 40 % per annum. The book value of equipment at 1 May 2007 was $240 000.

4 Accrued bank interest of $10 000 payable at 30 April 2008 had been omitted from the accounts.

5 Marie Motiwala's drawings of $50 000 had been debited to wages.

6 Stock valued at $10 000 at 30 April 2008 should have been valued at $1000.

7 Stock costing $11 000 taken for Marie Motiwala's personal use during the year had not been recorded in the accounts.

8 A $20 000 interest free loan to an employee had been debited to the wages account.

9 $100 000 had been debited to the equipment account. Of this amount, $25 000 should have been debited to equipment repairs.

10 Stock costing $22 000 was delivered to the business on 28 April 2008 and was included in the end-of-year stocktaking. The invoice was received and entered into the accounting records on 3 May 2008.

For Examiner's Use

**REQUIRED**

Prepare a detailed financial statement showing Marie Motiwala's corrected profit or loss for the year ended 30 April 2008.

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**B** JR's sales ledger control account balances at 1 March 2008 were as follows.

| | |
|---|---|
| Dr $340 600 | Cr $1 960 |

During March 2008 the following transactions took place.

| | $ |
|---|---|
| Credit sales | 295 000 |
| Cash sales | 219 750 |
| Sales returns from credit customers | 6 480 |
| Receipts from debtors | 238 600 |
| Discounts allowed | 3 500 |

Additional information for the month of March 2008

1 The receipts from debtors included a cheque for $3600 in full settlement of a debt of $3800. This was returned by the bank on 28 March marked "insufficient funds".

2 Eva Little and JR both buy from and sell to each other. At 31 March 2008 Eva owed JR $5000 and JR owed $8600 to Eva. They agreed to offset balances, the net amount being payable by JR on 31 March 2008.

3 It was agreed that a debt of $2300 from Alice Springs was bad and it was written off.

4 The total credit balances in the sales ledger control account at 31 March 2008 were $8340.

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**REQUIRED**

**(a)** Prepare JR's sales ledger control account for the month of March 2008.

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**(b)** State **three** possible reasons why a debtor's account might have a credit balance.

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**(c)** State **three** reasons for keeping control accounts.

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**[Total: 30]**

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**3** Aloysius Dixon of Dixon's Tableworks anticipates that in 2009 he will be able to sell 10 000 tables at $1100 each. However, his works manager has already produced the following figures for 2009 based on the factory's current production of 8000 tables per annum.

| | $ | $ |
|---|---|---|
| Sales (8000 x $1100) | | 8 800 000 |
| Direct materials | 1 024 000 | |
| Direct wages | 5 000 000 | |
| Production overhead | 640 000 | |
| Sales overhead | 480 000 | 7 144 000 |
| Profit | | 1 656 000 |

All overheads are 50 % fixed, 50 % variable.

250 000 labour hours are worked.

There are 3 options under consideration which allow sales to increase to 10 000 tables.

**Option 1**
Purchase 2000 tables from another manufacturer at $920 each.

**Option 2**
Lease new and improved machinery at a cost of $260 000 for the year. This would allow production of 10 000 tables per annum with no change in unit variable costs. This was previously under consideration and $40 000 had been spent on a feasibility study.

**Option 3**
Using the existing machinery, introduce an evening shift thus providing an additional 62 500 labour hours. Wage rates for this shift would have to increase by 15 % to take into account unsocial hours to be worked. Also the additional staff needed would have to be trained at a cost of $50 000 - this cost to be absorbed in 2009.

**REQUIRED**

**(a)** Calculate the original unit contribution.

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**(b)** Prepare financial statements showing in detail the calculations for the **additional** profits or losses arising from **each** of the **three** options.

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**(c)** State which option should be accepted, giving **one** advantage and **one** disadvantage, of that option.

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**[Total: 30]**