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Centre Number	Candidate Number

Candidate Name _____

CAMBRIDGE INTERNATIONAL EXAMINATIONS

General Certificate of Education Advanced Subsidiary Level

ACCOUNTING 8706/2

PAPER 2 Structured Questions

OCTOBER/NOVEMBER SESSION 2001 1 hour 30 minutes

Candidates answer on the question paper.
No additional materials are required.

TIME 1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces at the top of this page.

Answer **all** questions.

Write your answers in the spaces provided on the question paper. If you require extra space for your answers or workings, use pages 5 and 9.

INFORMATION FOR CANDIDATES

The number of marks is given in brackets [ ] at the end of each question or part question.

You may use a calculator.

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1	
2	
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TOTAL	

This question paper consists of 10 printed pages and 2 lined pages.

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1 **(a)** Outline **three** reasons for keeping control accounts.

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(b) The following information was extracted from the books of William Noel for the year ended 30 April 2001.

	$
Purchase Ledger Balance at 1 May 2000	43 120
Credit purchases for the year	824 140
Credit purchases returns	12 400
Cheques paid to creditors	745 980
Cash purchases	8 940
Discount received on credit purchases	31 400
Credit balances transferred to sales ledger accounts	5 210

Draw up the Purchase Ledger Control account for the year ended 30 April 2001.

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The total of the balances in William Noel's purchase ledger amounts to $67 660, which does not agree with the closing balance in the Control account.

The following errors were then discovered.

1 Discount received had been overstated by $1000.

2 A credit purchases invoice for $2040 had been completely omitted from the books.

3 A purchases ledger account had been understated by $100.

4 A credit balance of $850 in the purchases ledger had been set off against a contra entry in the sales ledger, but no entry had been made in either control account.

5 A payment of $1450 had been debited to the creditor's account but was omitted from the bank account.

6 A credit balance of $3210 had been omitted from the list of creditors.

(c) (i) Extract the necessary information from the above list and draw up an amended Purchase Ledger Control account for the year ended 30 April 2001.

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(ii) Beginning with the given total of $67 660, show the changes to be made in the Purchase Ledger to reconcile it with the new Control account balance.

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(d) Explain the concept of Prudence. .....

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(e) Discuss how the concept of prudence might be relevant when considering:

(i) Goodwill

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(ii) the valuation of Stock in Trade

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2 The Abracamagic Club's Bank Current account for the year ended 30 September 2001 was as follows:

	$		$
Balance at 1/10/2000	8 400	Purchases for shop	3 745
Subscriptions received	6 435	Shop wages	4 000
Donations	600	General expenses	1 500
Cash taken at door	3 500	Cost of Annual Dance	1 490
Grant from local council	6 000	Transfer to Deposit Account	16 000
Annual Dance receipts	1 400	New equipment	2 000
Shop takings	7 168	Rent	8 000
Balance at 30/9/2001	3 232		
	$36 735		$36 735

In order to increase funds the Club has a shop which sells magic tricks. In addition to an annual membership subscription, members pay $1 each time they visit the club. This is referred to as "Cash taken at door".

The annual membership subscription was $40 until 30 September 2001, when it was raised to $45.
There were 150 members at 1 October 2000.
At that date 15 of them had not paid their subscriptions for the year ended 30 September 2000, and 12 had already paid their subscriptions for the year ended 30 September 2001.
By 30 September 2001 all members had paid their due subscriptions and some had paid in advance, for the year ending 30 September 2002, but the Treasurer had not yet calculated how many.

Other balances were as follows:

	At 1 October 2000	At 30 September 2001
	$	$
Shop Stock	500	850
Cash float for shop	50	70
Creditors for shop	1 450	1 260
Deposit account	15 000	31 000
Equipment at cost	8 000	10 000

The equipment at 1 October 2000 had been depreciated by $1600 per annum for 5 years. The new equipment is to be depreciated at the same annual percentage rate.

The local council's grant was for $10 000 and the remainder of this has yet to be received. This will be treated as revenue income in the final accounts.

Interest of $800 is due on the deposit account for the year ended 30 September 2001.

At 30 September 2001 General expenses of $65 were due and unpaid.

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(a) Calculate the Accumulated Fund at 1 October 2000.

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(b) Prepare the Club Shop Trading account for the year ended 30 September 2001.

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(c) Prepare the Club Subscriptions account for the year ended 30 September 2001.

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(d) Prepare the Club Income and Expenditure account for the year ended 30 September 2001.

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3 (a) State **five** assumptions which are made when preparing break-even charts.

State **one** limitation of each assumption.

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The Gattonside Gumbo Company Ltd's production capacity is 10 000 Units, and usual selling price is $10 per unit.

Unit costs are found as follows:

Direct Materials	2 kilograms resin @ $2.05 per kilogram 1 kilogram hardener @ $1.20 per kilogram
Direct Labour	It takes 10 minutes to produce one unit and Direct Wages are paid at the rate of $12 per hour.
Variable Overheads	$0.90 per unit for the first 8000 units, and $0.85 per unit for the remainder.
Fixed Overheads	$0.75 per unit at full production.

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(b) Using marginal costing, calculate the net profit if

(i) 7500 units are produced and sold;

(ii) 9000 units are produced and sold.

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(c) Calculate the number of units required to break even.

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(d) Calculate the expected profit at full production capacity assuming all production is sold, if selling price is reduced to $9 per unit.

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(e) Comment on the possible advantages and disadvantages of lowering a selling price.

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