



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

**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.

For Examiner's Use	
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2	
3	
<b>Total</b>	

This document consists of **16** printed pages.



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

For  
Examiner's  
Use

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







**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]**

- 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:

<b>Non-current (fixed) assets</b>	Cost	Depreciation	Net Book Value
	\$	\$	\$
Fixtures and Fittings	6 000	2 160	3 840
<b>Current assets</b>			
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.

**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]**

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)	<u>264 000</u>	
		<u>1 917 600</u>
Prime cost		4 217 600
Factory overheads:		
Cutting department	364 800	
Pressing department	439 200	
Production department	509 600	
Assembly department	<u>233 200</u>	
		<u>1 546 800</u>
Cost of production		5 764 400
Administration costs		<u>1 152 880</u>
Total costs		<u>6 917 280</u>

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	<u>6 000</u>	
		<u>44 400</u>
Prime cost		<u>184 556</u>

The direct labour costs are based on budgeted hourly rates.



(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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**[Total 30]**

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