UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

CANDIDATE NAME


## CENTRE NUMBER


CANDIDATE NUMBER


## 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 $\$ 18000$
Work in progress \$15000
Finished goods \$41000
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 $\$ 4000$. The profit on disposal was $\$ 1000$. A new motor vehicle was purchased for $\$ 9000$.
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 $\$ 5000$ was accrued and rent of $\$ 10000$ was prepaid.

4 Labour costs include $\$ 16000$ 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.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(b) Prepare the income statement for the year ended 31 March 2013.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
........................................................................................................................................
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(c) Explain how the following will be affected if the company makes a loss in the year:
(i) Dividend payable for cumulative preference shares
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(ii) Dividend payable for ordinary shares
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(iii) Dividend payable on non-cumulative preference shares
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(iv) Interest payable on debentures.
$\qquad$
$\qquad$
$\qquad$

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

|  | $\$$ |
| :--- | ---: |
| Revenue | 200000 |
| Ordinary goods purchased | 145000 |
| Profit from operations | 22500 |
| Reid's balances at 31 December 2012 were: |  |
| Inventory | 12500 |
| Trade receivables | 40000 |
| Cash and cash equivalents | 10000 |
| Trade payables | 25000 |
| Finance costs (interest owing) | 12500 |
| Non-current assets at net book value | 60000 |

## Additional information:

$180 \%$ of revenue was on credit
2 Inventory at 1 January 2012 was $\$ 17500$
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
$\qquad$
$\qquad$
$\qquad$
(ii) Inventory turnover
$\qquad$
$\qquad$
$\qquad$
(iii) Trade receivables turnover
$\qquad$
$\qquad$
$\qquad$
(iv) Operating expenses to revenue ratio
$\qquad$
$\qquad$
$\qquad$
(v) Current ratio
$\qquad$
$\qquad$
$\qquad$
(vi) Acid test/liquid ratio
$\qquad$
$\qquad$
$\qquad$
(vii) Non-current asset turnover.
$\qquad$
$\qquad$
$\qquad$

For the year ended 31 December 2011 the following ratios were:
Inventory turnover
13 times

Trade receivables turnover
70 days

## 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.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(c) State two limitations of the uses of ratios.

1
$\qquad$
$\qquad$
2 $\qquad$
$\qquad$

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

His transactions for the first three months of 2013 were:

| Date |  | Purchases <br> (units) | Purchase price <br> (per unit) | Sales <br> (units) |
| :--- | ---: | :--- | :--- | :--- |
| Jan | 8 | 100 | $\$ 30.00$ | 30 |
|  | 10 |  | $\$ 30.50$ | 80 |
|  | 12 | 120 |  | 90 |
|  | 21 |  |  | 531.00 |
| Feb | 28 |  |  | 100 |
|  | 1 |  |  |  |
|  | 14 | 150 | $\$ 31.50$ | 30 |
|  | 23 |  | $\$ 32.00$ | 120 |
|  | 1 |  |  | 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
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$

## (ii) AVCO.

$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(b) Using each method of valuation, calculate the gross profit for the three months ending 31 March 2013.
(i) FIFO
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(ii) AVCO.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(c) State one advantage and one disadvantage of using the following methods of inventory valuation:
(i) FIFO
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(ii) AVCO.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
(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.

1
$\qquad$
$\qquad$
$\qquad$
$\qquad$
2 $\qquad$
$\qquad$
$\qquad$
$\qquad$

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.

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.
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$
$\qquad$

[^0]
[^0]:    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.

