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.

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

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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.

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REQUIRED

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

[8]

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

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[11]

(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.

[5]

(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.

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.

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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.

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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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Question 3 is on the next page.

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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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[22]

For Examiner's Use

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

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[Total: 30]