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

CANDIDATE NAME	

CENTRE NUMBER		CANDIDATE NUMBER	

4875869639

ACCOUNTING **9706/22**

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.

IB13 06_9706_22/4RP

UNIVERSITY *of* CAMBRIDGE
International Examinations

[Turn over

1 The following information relates to two businesses, one of which manufactures computers whilst the other is a food wholesaler. All sales and purchases are on credit.

	Business X	Business Y
Gross profit ratio	54%	30%
Net profit ratio	18%	6%
Current ratio	1.6:1	0.5:1
Trade receivables turnover	40 days	3 days
Return on capital employed	5.4%	12%
Cost of sales	$248 400	$1 050 000
Closing inventory	$38 000	$48 000
Cash and cash equivalents	$30 000	$14 000
Long-term loan	$1 000 000	$50 000

For calculations, assume a 360-day year.

REQUIRED

(a) State and explain which business is the computer manufacturer and which is the food wholesaler.

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For Examiner's Use

(b) Prepare, as fully as the given information allows, income statements for **both** businesses.

Income Statements

	Business X	Business Y
	$	$
Revenue		
Less Cost of sales	________	________
Gross profit		
Expenses	________	________
Profit for the year	========	========

[8]

(c) Prepare, as fully as the given information allows, statements of financial position for **both** businesses.

Statements of Financial Position

		Business X		Business Y
	$	$	$	$
Non-current assets				
Current assets				
Inventory				
Trade receivables				
Cash and cash equivalents	________	________	________	________
Total assets				
Current liabilities				
Trade payables		________		________
Net assets		========		========
Capital				
Non-current liabilities				
Loan		________		________
Capital employed		========		========

[12]

For Examiner's Use

(d) (i) Define the term **liquidity.**

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(ii) State which business is more likely to have liquidity problems.

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(iii) State which ratio gives most concern and why it does so.

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[Total: 30]

Question 2 is on the next page.

2 The following is the draft statement of financial position of George Grosz, a sole trader, at 30 June 2012.

Statement of Financial Position at 30 June 2012

	$	$	$
Non-current assets			
Buildings at valuation			108 000
Equipment at net book value			7 000
Motor vehicles at net book value			35 000
			150 000
Current assets			
Inventory	21 000		
Trade receivables	18 000		
Cash and cash equivalents	8 000		
Other receivables	13 000	60 000	
Current liabilities			
Trade payables		42 000	
			18 000
			168 000
Non-current liabilities			
Loan			50 000
			118 000
Capital at 1 July 2011			90 000
Add Draft profit for the year			30 000
			120 000
Less Drawings			2 000
			118 000

Additional information:

1 Provision for depreciation on motor vehicles for the year ended 30 June 2012 had not yet been charged. Depreciation is charged at 10% on the net book value at the year end.

2 Items included in inventory and valued at their cost price of $9500 were damaged and had an estimated net realisable value of $2000.

3 A purchase invoice for goods valued at $2000 had been omitted from the books.

4 Sales invoices for goods valued at $4000 had been omitted from the books.

5 The loan was received at 1 March 2012. Loan interest of 6% due at the year end had not yet been paid.

For Examiner's Use

REQUIRED

(a) Prepare a statement to show the corrected profit for the year ended 30 June 2012.

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(b) Calculate Grosz's capital at 30 June 2012.

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For Examiner's Use

Grosz decided to form a partnership with Omar Kayal with effect from 1 July 2012, sharing the profits and losses in the ratio of 3:2 respectively.

Goodwill was to be valued at double the amount of the corrected profit for the year. Kayal was to contribute cash of $30 000, inventory of $24 000 and equipment of $60 000.

(c) State **two** reasons why goodwill has arisen.

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(d) Prepare the capital accounts of Grosz and Kayal immediately after the formation of the partnership.

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The following conditions were included in the partnership agreement:

1 A partnership salary of $10 500 is payable to Kayal.
2 Maximum drawings permitted each year – Grosz $20 000; Kayal $10 000.
3 Interest is to be charged on drawings at 10% per annum.
4 Interest on capital is payable at the rate of 5% per annum.
5 The first 40% of any residual profits is to be shared equally and transferred to the partners' capital accounts.

In the first year of the partnership the profit for the year was $88 600.
Grosz and Kayal both withdrew the maximum amount allowable during the year.

For Examiner's Use

REQUIRED

(e) Prepare the appropriation account for the year ended 30 June 2013.

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[Total: 30]

3 Clarke Limited manufactures one product, the Apex. The following forecast information for the Apex is available for the year ending 31 December 2014:

For Examiner's Use

Per unit:	
Selling price	$45.50
Direct material ($4 per metre)	$14.00
Direct labour ($12 per hour)	$18.00
Variable production overhead	$ 3.00
Sales demand	4 000 units

Fixed overheads are forecast to be $23 100 for the year.

REQUIRED

(a) Calculate the breakeven point in units for the sales of the Apex.

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(b) Calculate the margin of safety for the Apex in terms of revenue.

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For Examiner's Use

Clarke Limited has decided to introduce two new products in addition to the Apex; the Bond and the Cord. Both products use the same direct material and the same grade of direct labour as the Apex. The following forecast information is available for the year ending 31 December 2014:

Per unit:	Bond	Cord
Selling price	$52.00	$67.50
Direct material ($4 per metre)	$16.00	$20.00
Direct labour ($12 per hour)	$24.00	$30.00
Variable production overhead	$ 4.00	$ 5.00
Sales demand	6 000 units	2 000 units

Fixed overheads are expected to double as a result of producing all three products.

REQUIRED

(c) Calculate the contribution per unit of the Bond and the Cord.

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(d) Calculate the total quantity of direct material required by Clarke Limited for the year ending 31 December 2014.

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(e) Clarke Limited has been told that due to a shortage of direct material, only 40 000 metres will be available for the year. Calculate the maximum forecast profit for Clarke Limited for the year ending 31 December 2014 using 40 000 metres of direct material.

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For Examiner's Use

[13]

(f) Explain why profit calculated using marginal costing would be different to that calculated using absorption costing.

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[Total: 30]