Centre Number Candidate Number Name

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

ACCOUNTING

9706/02

Paper 2 Structured Questions

October/November 2006

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.

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 Examir | er's Use |
|------------|----------|
| 1 | |
| 2 | |
| 3 | |
| Total | |

| | | | 7 | m. | |
|-------------------------|-----------------|---|--|--------------------|----------------|
| | | 2 | ` | A. Day | For |
| | | nership for some yea Sheet at 31 January 2 | rs, sharing profits ar 2006 was as follows: | | miner's Use |
| Balance Sheet at 31 | January 2006 | | | Tog | |
| | | \$ | \$ | \$ | c.C |
| Fixed Assets at Net | Book Value | | | • | On |
| Motor vehicles | | | 58 200 | | |
| Equipment | | | 35 400 | 400.000 | |
| Fixtures and fittings | | | <u>39 000</u> | 132 600 | |
| Goodwill | | | | 10 000 142 600 | |
| Current Accate | | | | 142 600 | |
| Current Assets Stock | | 64 000 | | | |
| Trade debtors | | 45 600 | | | |
| Bank | | 19 200 | 128 800 | | |
| Amounts due within | 1 year | | .20 000 | | |
| Trade creditors | | | 22 400 | | |
| Net current assets | | | | <u>106 400</u> | |
| | | | | <u>249 000</u> | |
| O | For all | 20,000 | | | |
| Capital accounts | Frank | 80 000 | | 200 000 | |
| Current accounts | Ernest Frank | <u>120 000</u> 35 400 | | 200 000 | |
| Current accounts | Ernest | 13 600 | | 49 000 | |
| | EIIIESI | 10 000 | | <u>249 000</u> | |
| | | | | 273 000 | |

Frank and Ernest, who had been renting business premises, accepted an offer by Devious to move to his premises on 1 February 2006 on condition that he would be accepted into the partnership on that date.

Additional information:

- The new partnership commenced on 1 February 2006 with Frank, Ernest and Devious sharing profits and losses in the ratio 2:1:1.
- 2 The new partnership took ownership of Devious's premises on 1 February 2006 at a valuation of \$196 000.
- Goodwill was revalued at 1 February 2006 at \$30 000 but would not be shown in the balance sheet in the future.
- Equipment was revalued at \$34 100 on 1 February 2006. 4
- Stock at 1 February 2006 was valued at \$63 000. 5
- 6 Current Accounts will remain separate.

REQUIRED

| | | 4 | |
|-----|-------------|--|-----------------|
| | | 3 AM. D | |
| DE | ~!!! | Alac Alac | For Examiner |
| KE | | RED | OSE |
| (a) | (i) | RED Prepare the partnership Goodwill account at 1 February 2006 following the amendments. | Tidge C |
| | | | |
| | | | · |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | [5] | |
| | (ii) | Prepare the partnership Revaluation account at 1 February 2006 following the amendments. | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | [5] | |

| | For |
|-----|----------|
| Exa | aminer's |
| | Use |

| (iii) | Prepare Capital accounts for Frank, Ernest and Devious, in columnar formation |
|-------|---|
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | [8] |

For Examiner's Use

| (iv) | Prepare the Balance Sheet of Frank, Ernest and Devious at 1 February 200 | Use |
|------|--|----------------|
| | | Tage |
| | | Use Jahide Com |
| | | |
| | | 1 |
| | | _ |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | [6] | |

| 42 | |
|--|-------------------|
| 6 | _ |
| | For Examiner's |
| (b) Discuss the treatment of Goodwill in partnership accounts, with particular reference retiring and incoming partners. | Use |
| | 0 |
| | Se'C |
| | OM |
| | |
| | |
| | l l |
| | _ |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| | |
| [6] | |
| [Total: 30] | |

7 BLANK PAGE www.PapaCambridge.com

For Examiner's Use

2 The following balances occur in Delboi's books of account at 30 September 2006.

| | \$000 |
|---|---------|
| Purchases | 154 |
| Sales | 240 |
| Stock at 1 October 2005 | 24 |
| Fixed assets | 77 |
| Debtors | 31 |
| Creditors | 33 |
| Bank | 15 (dr) |
| Long-term loan from bank at 10% per annum | 20 |
| Loan interest paid | 1 |
| Operating costs | 62 |
| Drawings | 20 |
| Capital | ? |

Additional information:

Stock at 30 September 2006 was valued at \$12 000.

From the above information the following trading and profit and loss account has been prepared.

| Trading and Profit and Loss Account for | or year ended 30 Septem \$000 | \$000 \$000 |
|---|----------------------------------|----------------|
| Sales Less cost of sales | | 240 |
| Opening stock | 24 | |
| Purchases | <u>154</u> | |
| | 178 | |
| Closing stock | <u>12</u> | <u>166</u> |
| Gross profit | | 74 |
| Operating costs | 62 | |
| Loan interest | 2 | 64 |
| Net Profit | | <u>10</u> |

REQUIRED

| | the state of the s | |
|-----|--|-------------------|
| | 9 | For |
| RE | QUIRED Prepare Delboi's Balance Sheet at 30 September 2006, showing his net current asset | Examiner's Use |
| (a) | Prepare Delboi's Balance Sheet at 30 September 2006, showing his net current asset | Tio. |
| | | Se.Co. |
| | | 177 |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | | |
| | [6] | |
| | | |
| (b) | Calculate the following to two decimal places. | |
| | (i) Net profit ratio | |
| | | |
| | | |

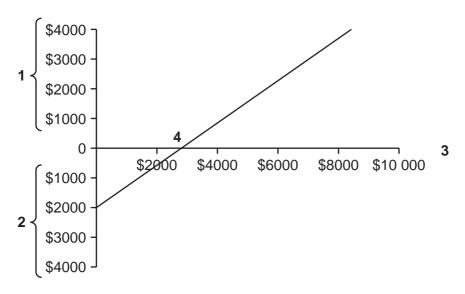
| | 10 Many Papar |
|--------|------------------------------------|
| (ii) | Current ratio |
| (iii) | Acid test (quick) ratio |
| (iv) | Rate of Stockturn |
| (v) | Return on owner's capital employed |
| (vi) | Return on total capital employed |
| (vii) | Debtors' collection period in days |
| (viii) | Creditors' payment period in days |

REQUIRED

| | | Why. | |
|-----|-------|--|-------------------|
| | | 11 | For |
| pre | vious | gross profit ratio for the year ended 30 September 2006 is 30.83%, but s years been constant at 35%. He discovers that his new assistant, Rodden goods. RED | Examiner's Use |
| RE | QUIR | RED | COM |
| (c) | Cald | culate, at cost price, the value of goods that Rodders is stealing. | |
| | | | |
| | | | |
| | | | |
| | | [4] | 1 |
| RE | QUIR | RED | |
| (d) | | te and explain one advantage and one disadvantage of using ratio analysis as a ans of evaluating performance. | a |
| | (i) | Advantage | |
| | | | 0 |
| | | | |
| | (ii) | Disadvantage | п |
| | | | |
| | ••••• | [4] | |
| | | [Total: 30] | |

www.PapaCambridge.com 3 The following Contribution/Sales chart was prepared for Larry Ltd for the first business.

Larry Ltd - Profit (Contribution/Sales) Chart



Selling price is \$30 per unit Fixed costs (shown) \$2000 Variable costs are \$9.00 per unit All of the output of 300 units is sold.

REQUIRED

(a)

| (i) | State what each of the numbers 1, 2, 3 and 4 on the chart represent. | | | | | |
|------|---|--|--|--|--|--|
| | 1 | | | | | |
| | 2 | | | | | |
| | 3 | | | | | |
| | 4[4] | | | | | |
| (ii) | Calculate the break-even point in both units and sales value. The formula for your calculations must be shown. | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | [4] | | | | | |

| (iii) | Define and e | xplain margin of sa | ifety. | | | Cal |
|---------|---------------|--|-----------------------|-----------------|-----|----------|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | [4] |
| (iv) | Calculate the | margin of safety in | n units and in | value. | | |
| | | | | | | |
| | | | | | | |
| | | | | | | [4] |
| | | business, expecte y 15%. Selling price | | | | ed costs |
| REQUIR | RED | | | | | |
| (b) (i) | Calculate the | anticipated profit i | n the second | year of busine | SS. | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | [4] |
| (ii) | Prepare a bre | eak-even chart for | the second ye | ear of business | | |
| | \$12 000 7 | | | | | |
| | \$10 000 - | | | | | |
| | \$8000 - | | | | | |
| | \$6000 - | | | | | |
| | \$4000 - | | | | | |
| | \$2000 - | | | | | |
| | 0 | 100 | 200 | 300 | 400 | |

REQUIRED

| | Why. | | |
|-----|--|-----------|--|
| | QUIRED 14 | For | |
| RE | REQUIRED | | |
| (c) | State four assumptions made when using break-even charts. | ridge co. | |
| | | S. COM | |
| | | 1 | |
| | | 1 | |
| | | | |
| | [41] | | |
| | [4] | | |

[Total: 30]

BLANK PAGE

www.PapaCambridge.com

16

BLANK PAGE

www.PapaCambridge.com

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.