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

CANDIDATE NAME									
CENTRE NUMBER						CANDIDATE NUMBER				

9176788969

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 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.

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2	
3	
Total	

This document consists of **11** printed pages and **1** blank page.

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1 The following trial balance was extracted from the Mighty Wholesale Company's books at 30 April 2010.

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	Dr	Cr
	$000	$000
Revenue (Sales)		1600
Ordinary goods purchased (Purchases)	946	
Property (Buildings) at cost	1490	
Warehouse fittings at cost	348	
Inventory (Stock) at 1 May 2009	124	
Capital		1400
12% loan repayable 2015		100
Wages	160	
Provisions for depreciation at 1 May 2009:		
Property (Buildings)		320
Warehouse fittings		197
Trade receivables (Debtors)	360	
Trade payables (Creditors)		92
Cash and cash equivalents (Bank)	48	
Distribution expenses	43	
Business rates	50	
Insurance	30	
Advertising	79	
Drawings	25	
Loan interest	6	
	3709	3709

Additional information:

1 Inventory (stock) at 30 April 2010 cost $230 000. This includes inventory (stock) costing $20 000 which has a net realisable value of $9000.

2 Warehouse fittings were sold during the year. The proceeds of $10 000 were debited to the bank account and credited to the property (buildings) at cost account. No other entry has been made regarding this transaction. The fittings sold had cost $52 000 and the total depreciation charged to them by 1 May 2009 amounted to $41 000. No depreciation is charged in the year of disposal.

3 Depreciation is to be provided for as follows:

Property (buildings)	2% on cost
Warehouse fittings	25% reducing (diminishing) balance

4 Other payables (accruals) at 30 April 2010 are:

Wages	$12 000
Distribution expenses	$5 000
Loan interest	? (The loan was taken out in 2005)

5 Other receivable (prepayment) at 30 April 2010 is:

Insurance	$2000

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REQUIRED

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(a) Prepare the income statement (trading and profit and loss account) for the year ended 30 April 2010.

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(b) Prepare the balance sheet at 30 April 2010.

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[Total: 30]

2 The following is an extract of Chikkadea's financial statements (final accounts) for the year ended 30 April 2010.

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Income Statement (Trading and Profit and Loss account)
for the year ended 30 April 2010

	$	$
Revenue (Sales)		375 000
Less cost of sales:		
Inventory (Stock) at 1 May 2009	32 000	
Ordinary goods purchased (Purchases)	281 250	
	313 250	
Inventory (Stock) at 30 April 2010	28 000	285 250
Gross profit		89 750
Less expenses		44 750
Profit for the year (Net Profit)		45 000

Balance Sheet at 30 April 2010

Assets	$	$
Non-current (Fixed) assets		428 000
Current assets		
Inventory (Stock)	28 000	
Trade receivables (Debtors)	22 500	
Cash and cash equivalents (Bank)	1 500	52 000
Total assets		480 000
Equity and liabilities		
Equity:		
Capital		450 000
Current Liabilities		
Trade payables (Creditors)		30 000
		480 000

The following have been calculated for Dakeeri, a competitor in the same type of business.

(i)	Gross profit ratio	20.2%
(ii)	Net profit ratio	10%
(iii)	Return on capital employed	9%
(iv)	Return on total assets	8%
(v)	Current (working capital) ratio	1.5 : 1
(vi)	Liquid (acid test) ratio	0.7 : 1
(vii)	Receivable days (Debtors' turnover)	28 days
(viii)	Payable days (Creditors' turnover)	35 days
(ix)	Inventory turnover (Rate of stockturn)	8 times

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(a) Calculate the same ratios for Chikkadea's business. In order to gain full marks you must show the formula **or** your workings for each calculation.

Where possible show your answers to **one** decimal place.
The first answer has been given as an example.

(i) $\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = \frac{89\,750 \times 100}{375\,000} = 23.9\%$

(ii) .....

(iii) .....

(iv) .....

(v) .....

(vi) .....

(vii) .....

(viii) .....

(ix) .....

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(b) (i) Name the business which performed better during the year ended 30 April 2010.

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(ii) Justify your answer to **(b) (i)** by comparing **four** of the ratios which you have calculated with the **same** four ratios given for Dakeeri.

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[Total: 30]

3 Poynder and Park plan to manufacture a new product for use in the underwater construction industry. This product will be sold for $34.00 per unit.

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The following are the unit costs of the product:

Direct Materials
1 waterproof container $1.00
Chemical P 3 kilograms at $1.00 per kilogram
Chemical Q 4 kilograms at $1.75 per kilogram

Direct labour
15 minutes at $8 per hour

Variable factory overhead
Absorbed at $14.00 per direct labour hour.

Fixed factory overhead
$3040 for the 6 months ended 30 June 2011. To be absorbed at a rate per unit.

Expected production and sales for the 6 months ended 30 June 2011 are:

	January	February	March	April	May	June
Production (units)	50	50	60	60	80	80
Sales (units)	40	45	60	70	75	75

Additional costs will be:

Sales commission per unit sold	$1.00
Fixed administrative costs	$2500 per annum

REQUIRED

(a) Prepare a detailed forecast income statement (profit and loss account) for the six months ended 30 June 2011, using **marginal** costing. Write your answer on the **next** page.

You may use the space below for your workings.

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Forecast income statement (profit and loss account) for the six months ended 30 June 2011, using **marginal** costing.

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(b) Prepare a detailed forecast income statement (profit and loss account) for the six months ended 30 June 2011, using **absorption** costing.

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(c) Prepare a statement to reconcile the profit in **(a)** with the profit in **(b)**.

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[Total: 30]

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