

Centre Number	Candidate Number	Name
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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 Examiner's Use	
1	
2	
3	
<b>Total</b>	

This document consists of **13** printed pages and **3** blank pages.



- 1 Frank and Ernest have been in partnership for some years, sharing profits and losses in the ratio 2 : 1. The partnership Balance Sheet at 31 January 2006 was as follows:

Balance Sheet at 31 January 2006

	\$	\$	\$
<u>Fixed Assets at Net Book Value</u>			
Motor vehicles		58 200	
Equipment		35 400	
Fixtures and fittings		<u>39 000</u>	132 600
Goodwill			<u>10 000</u>
			142 600
<u>Current Assets</u>			
Stock	64 000		
Trade debtors	45 600		
Bank	<u>19 200</u>	128 800	
<u>Amounts due within 1 year</u>			
Trade creditors		<u>22 400</u>	
Net current assets			<u>106 400</u>
			<u>249 000</u>
Capital accounts	Frank	80 000	
	Ernest	<u>120 000</u>	200 000
Current accounts	Frank	35 400	
	Ernest	<u>13 600</u>	<u>49 000</u>
			<u>249 000</u>

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:

- 1 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.
- 3 Goodwill was revalued at 1 February 2006 at \$30 000 but would not be shown in the balance sheet in the future.
- 4 Equipment was revalued at \$34 100 on 1 February 2006.
- 5 Stock at 1 February 2006 was valued at \$63 000.
- 6 Current Accounts will remain separate.

**REQUIRED**

(a) (i) Prepare the partnership Goodwill account at 1 February 2006 following the amendments.

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(ii) Prepare the partnership Revaluation account at 1 February 2006 following the amendments.

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..... [5]







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- 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 year ended 30 September 2006		
	\$000	\$000
Sales		240
Less cost of sales		
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	<u>64</u>
Net Profit		<u>10</u>



(ii) Current ratio .....

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(iii) Acid test (quick) ratio .....

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(iv) Rate of Stockturn .....

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(v) Return on owner's capital employed .....

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(vi) Return on total capital employed .....

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(vii) Debtors' collection period in days .....

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(viii) Creditors' payment period in days .....

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[16]

Delboi's gross profit ratio for the year ended 30 September 2006 is 30.83 %, but has in previous years been constant at 35 %. He discovers that his new assistant, Rodders, is stealing goods.

**REQUIRED**

(c) Calculate, at cost price, the value of goods that Rodders is stealing.

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..... [4]

**REQUIRED**

(d) State and explain **one** advantage and **one** disadvantage of using ratio analysis as a means of evaluating performance.

(i) Advantage .....

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(ii) Disadvantage .....

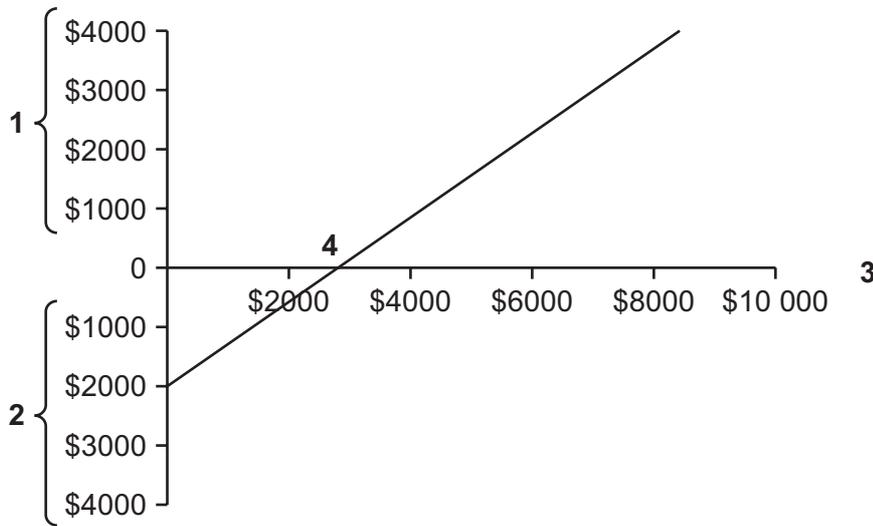
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**[Total: 30]**

- 3 The following Contribution/Sales chart was prepared for Larry Ltd for the first year of 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.

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(iii) Define and explain margin of safety.

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(iv) Calculate the margin of safety in units **and** in value.

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In the second year of business, expected production and sales is 400 units, and fixed costs are expected to rise by 15%. Selling price and variable costs will remain as before.

**REQUIRED**

(b) (i) Calculate the anticipated profit in the second year of business.

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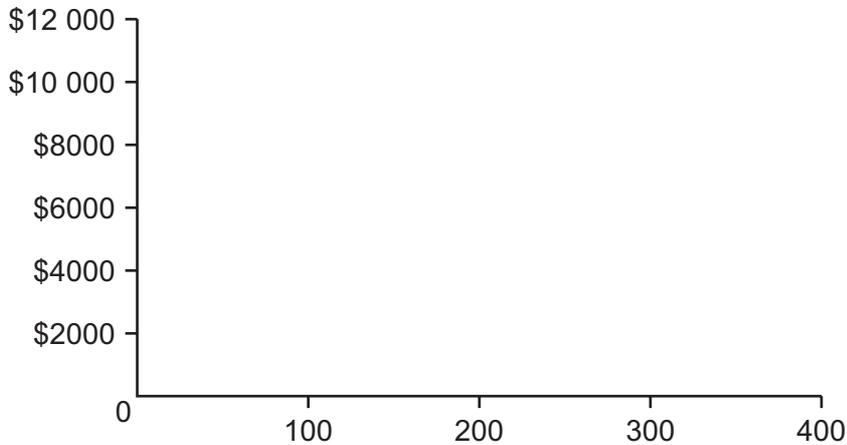
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(ii) Prepare a break-even chart for the second year of business.



[6]

**REQUIRED**

(c) State **four** assumptions made when using break-even charts.

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**[Total: 30]**



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