| 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

May/June 2005

**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 in the spaces provided on the Question Paper.
You may use a soft pencil for rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
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.
You may use a calculator.

If you have been given a label, look at the details. If any details are incorrect or missing, please fill in your correct details in the space given at the top of this page.

Stick your personal label here, if provided.

| For Examiner's Use | |
|---|---|
| 1 | |
| 2 | |
| 3 | |
| Total | |

This document consists of **9** printed pages and **3** blank pages.

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**1** John, Georgina and Paul are in partnership but have no written partnership agreement. The partners wish to expand the partnership, and require additional funds.

Their capital accounts at 1 May 2005 were as follows.

| | $ |
|---|---|
| John | 60 000 |
| Georgina | 45 000 |
| Paul | 45 000 |

Under the existing circumstances, profit of $67 500 is anticipated for the year ended 30 April 2006. There are two options for expanding the business, either of which is acceptable to all three partners. The selected option would take effect from 1 May 2005.

The two options are:

(i) Borrow $75 000 from the bank at 12% interest per annum. The bank would require repayment of $6750 at the end of each financial year, in addition to interest.
A manager would have to be employed at a wage of $15 000 per annum and profits should increase by $27 000 before taking into account bank interest and the manager's salary.

(ii) Bring Ringo in as a partner. He would take on the role of manager and would provide $75 000 of capital. Ringo would join the partnership, provided an agreement was drawn up requiring interest on capital to be paid at 7.5% per annum.
Remaining profits would be split in the ratio 3:3:2:2, with John and Ringo receiving the larger shares. Goodwill would be ignored and net profit would increase by $27 000.

**REQUIRED**

**(a)** For the year ended 30 April 2006, calculate the profit to be received by each partner under option (i).

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**(b)** For the year ending 30 April 2006, calculate the amount to be received by each partner under option (ii).

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**(c)** Make a brief comparison of options (i) and (ii).

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**[Total: 30]**

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**2** After completion of the Trading, Profit and Loss and Appropriation Account for the year ended 31 May 2005, the following balances were extracted from the books of James Defirst Ltd.

| | $ | |
|---|---|---|
| Motor vehicles at cost | 60 000 | |
| Equipment at cost | 30 000 | |
| Goodwill | 15 000 | |
| Stock | 45 750 | |
| Debtors | 78 000 | |
| Bank | 13 125 | (Dr) |
| General reserve | 15 000 | |
| Creditors | 30 075 | |
| Retained profit | ? | |

Additional information:

1 Authorised share capital of the company is 100 000 ordinary shares of $1 each, of which 75 000 were issued and fully paid at $1.15 per share.

2 All fixed assets were bought on 1 June 2002, the date the company was incorporated. Depreciation is applied as follows.

(i) Motor vehicles – 40% reducing balance.

(ii) Equipment – 20% straight line, after taking into account a 10% residual balance.

3 A dividend of $0.12 per share has been proposed for the year ended 31 May 2005.

4 A provision for doubtful debts of 5% of debtors at 31 May 2005 is to be created.

5 Stock costing $2500 had been sent to a customer on a sale or return basis on 25 May 2005. It had been neither returned nor sold by the year end, and no entries regarding it had been made in the accounts.

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**REQUIRED**

**(a)** James Defirst Ltd's balance sheet at 31 May 2005 in vertical format.

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**(b)** Calculate the following for the year ended 31 May 2005 to **two decimal** places. Show your working in the boxes.

| | |
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| **(i)** Working capital (current) ratio | |
| **(ii)** Liquid (acid test) ratio | |

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**(c)** Explain the function of an Appropriation Account in:

**(i)** a Partnership

**(ii)** a Limited Company

**(i)** a Partnership .....

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**(ii)** a Limited Company .....

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**[Total: 30]**

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**3** Quango Ltd produces four types of lamp – Platinum, Gold, Silver and Bronze. Unit selling prices and costs are as follows:

| Product | Platinum | Gold | Silver | Bronze |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Selling price | 184 | 148 | 142 | 138 |
| Costs | | | | |
| Direct materials | 24 | 21 | 30 | 18 |
| Direct labour | 30 | 27 | 24 | 27 |
| Overheads | 30 | 25 | 20 | 25 |

Direct material and Direct labour are variable costs.
Overheads are 40% variable and 60% fixed.

Quango's intention was to produce and sell the following quantities during the year ended 31 May 2005.

| Product | Quantity (units) |
|---|---|
| Platinum | 2000 |
| Gold | 1800 |
| Silver | 1600 |
| Bronze | 2400 |

**REQUIRED**

**(a)** A statement, in marginal costing format, of profitability for **each** product, **and** in total.

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It was then discovered that fixed overheads were likely to rise by 8% and the total amount available to pay overheads could not be increased.

**REQUIRED**

**(b)** A statement, taking into account the possibility of the increase in fixed overheads, and maximising profit, showing the **quantity** of each product to be produced.

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**(c)** A statement in marginal costing format of profitability for **each** product **and** in **total**, based on your answer to **(b)**.

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**[Total: 30]**

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