



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

CANDIDATE NAME

CENTRE NUMBER

CANDIDATE NUMBER

* 6 4 8 3 5 0 9 9 5 7 *

ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 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.

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



- 1 Booksellers Limited prepared the following trial balance for the year ended 31 December 2012:

| | \$000 | \$000 |
|---|------------|------------|
| Gross profit for the year | | 415 |
| Wages and salaries | 127 | |
| Rent | 44 | |
| Heating and lighting | 15 | |
| Motor expenses | 50 | |
| Office expenses | 19 | |
| Insurance | 15 | |
| Discount allowed | 2 | |
| Other expenses | 53 | |
| Inventory at 31 December 2012 | 37 | |
| Trade receivables | 45 | |
| Provision for doubtful receivables | | 4 |
| Bank | 37 | |
| Trade payables | | 15 |
| Goodwill | 44 | |
| Motor vehicles at cost | 176 | |
| Shop fittings at cost | 42 | |
| Office fittings at cost | 25 | |
| Provision for depreciation on motor vehicles | | 46 |
| Provision for depreciation on shop fittings | | 12 |
| Provision for depreciation on office fittings | | 3 |
| 5% Debentures | | 20 |
| Ordinary share capital | | 190 |
| Retained earnings | | <u>26</u> |
| | <u>731</u> | <u>731</u> |

Additional information:

- 1 Wages owing amounted to \$23 000 at 31 December 2012.
- 2 Debenture interest for the year had not been paid.
- 3 Bad debts of \$5000 were to be written off.
- 4 The provision for doubtful receivables was to be 5% of trade receivables.
- 5 Depreciation was provided on motor vehicles at 12½% on cost and on shop fittings at 10% on net book value.
- 6 Office fittings had been revalued at \$19 000.
- 7 Rent paid in advance was \$8000.

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(c) (i) The directors wish to raise funds to expand the business. State **two** sources of finance they could use.

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(ii) State the advantages and disadvantages to the company of the **two** sources of finance you have chosen.

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[Total: 30]

- 2 (a) Complete the following table stating the formula used to calculate the ratio, what the ratio measures and reasons why it may change.

| Ratio | Formula | What the ratio measures | Why the ratio may change |
|----------------------------|---------|-------------------------|--------------------------|
| Gross profit ratio | | | |
| Inventory turnover | | | |
| Quick (acid test) ratio | | | |
| Return on capital employed | | | |
| Trade receivables turnover | | | |

[20]

*For
Examiner's
Use*

(b) State and explain **five** limitations of using ratio analysis as an indicator of business performance.

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[Total: 30]

(ii) Calculate the revised profit for the year at 31 March 2013 using FIFO and AVCO.

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(b) Explain **three** reasons why a business cannot normally use the latest selling price of its products to value the inventory.

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- (c) Advise Shostakovich Limited on why the distinction between capital and revenue expenditure is important when preparing financial statements.

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Shostakovich Limited's statement of financial position at 31 March 2013 showed the following:

| | |
|--------------------------|---------|
| | \$ |
| Property | 200 000 |
| Accumulated depreciation | 14 000 |

The value of the property is split equally between land and buildings. They had been owned for 7 years. On 1 April 2013 its property was revalued at \$315 000.

REQUIRED

- (d) (i) Prepare the journal entry to record this revaluation. A narrative is **not** required.

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- (ii) Name the section in Shostakovich Limited's financial statements where the surplus will appear.

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(iii) Shostakovich Limited will continue to use the same rate of straight line depreciation for its buildings. Calculate the depreciation charge for the year on buildings after the revaluation.

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[Total: 30]

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