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9706/23

May/June 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 **12** printed pages.

- 1 Eagle Manufacturing Limited produces components for cars and lorries. The following figures have been taken from their books of account.

	\$000
Revenue	816
Inventories at 1 April 2012	
Raw materials	17
Work in progress	19
Finished goods	32
Factory machinery – cost	420
– accumulated depreciation	52
Office equipment – cost	30
– accumulated depreciation	10
Motor vehicles – cost	60
– accumulated depreciation	34
Purchases of raw materials	194
Labour	153
Electricity	25
Carriage inwards	6
Carriage outwards	22
Rent	60
Salaries	14
Sundry expenses	12
Insurances	18

Additional information:

- 1 Inventories at 31 March 2013 were:

Raw materials	\$18 000
Work in progress	\$15 000
Finished goods	\$41 000
- 2 Factory machinery and motor vehicles are to be depreciated at 25% using the reducing balance method.
 Office equipment is to be depreciated at 10% on cost.
 During the year a motor vehicle was sold for \$4 000. The profit on disposal was \$1 000. A new motor vehicle was purchased for \$9 000.
 All motor vehicles are used by the sales staff.
 A full year's depreciation is charged in the year of purchase, no depreciation is charged in the year of sale.
- 3 At 31 March 2013 electricity of \$5 000 was accrued and rent of \$10 000 was prepaid.
- 4 Labour costs include \$16 000 for indirect labour. The balance is direct labour.
- 5 Electricity is apportioned between the factory and office in the ratio 4:1.
- 6 Rent is apportioned between factory and offices in the ratio 3:2.
- 7 Sundry expenses are apportioned between factory and offices in the ratio 1:2.
- 8 Insurances are apportioned between factory and offices in the ratio 5:1.

(a) Prepare the manufacturing account for the year ended 31 March 2013.

[12]

Blank lined paper for writing.

(c) Explain how the following will be affected if the company makes a loss in the year:

*For
Examiner's
Use*

(i) Dividend payable for cumulative preference shares

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(ii) Dividend payable for ordinary shares

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(iii) Dividend payable on non-cumulative preference shares

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(iv) Interest payable on debentures.

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[Total: 30]

- 2 B M Reid's books of account showed the following figures for the year ended 31 December 2012:

For
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Use

	\$
Revenue	200 000
Ordinary goods purchased	145 000
Profit from operations	22 500

Reid's balances at 31 December 2012 were:

Inventory	12 500
Trade receivables	40 000
Cash and cash equivalents	10 000
Trade payables	25 000
Finance costs (interest owing)	12 500
Non-current assets at net book value	60 000

Additional information:

- 1 80% of revenue was on credit
- 2 Inventory at 1 January 2012 was \$17 500
- 3 Trade payables and trade receivables balances were unchanged since 1 January 2012.

REQUIRED

- (a) Calculate the following ratios, correct to **two** decimal places, in **each** case stating the formula used.

- (i) Mark-up

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 [3]

- (ii) Inventory turnover

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 [3]

- (iii) Trade receivables turnover

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 [3]

(iv) Operating expenses to revenue ratio

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 [3]

(v) Current ratio

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 [3]

(vi) Acid test/liquid ratio

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 [3]

(vii) Non-current asset turnover.

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 [3]

*For
Examiner's
Use*

For the year ended 31 December 2011 the following ratios were:

Inventory turnover	13 times
Trade receivables turnover	70 days

For
Examiner's
Use

REQUIRED

- (b) Use the above ratios to compare B M Reid's performance with the year ended 31 December 2012. State possible reasons for the changes.

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- (c) State **two** limitations of the uses of ratios.

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[Total: 30]

- 3 At 1 January 2013, Brahms had opening inventory of 50 teddy bears at a purchase price of \$30 each.

For
Examiner's
Use

His transactions for the first three months of 2013 were:

Date		Purchases (units)	Purchase price (per unit)	Sales (units)
Jan	8			30
	10	100	\$30.00	
	12			80
	21	120	\$30.50	
	28			90
Feb	1			50
	14	150	\$31.00	
	23			100
March	1			30
	4	120	\$31.50	
	19			120
	23	100	\$32.00	
	27			120

No other transactions took place during these months.
Each teddy bear was sold for \$50.

REQUIRED

- (a) Calculate the value of the inventory at 31 March 2013 using the following methods of valuation.

- (i) FIFO

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(ii) AVCO.

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(b) Using each method of valuation, calculate the gross profit for the three months ending 31 March 2013.

(i) FIFO

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(ii) AVCO.

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- (c) State **one** advantage and **one** disadvantage of using the following methods of inventory valuation:

*For
Examiner's
Use*

- (i) FIFO

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- (ii) AVCO.

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- (d) Brahms currently uses FIFO to value his inventory. He is considering changing the method to show a lower profit each year. State **two** reasons why he should not do this. Make reference to any relevant accounting principles, concepts and conventions.

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Damaged goods were discovered which had been included at a cost of \$30. Charlie could only sell them for \$20.

(e) Calculate the value of Charlie's closing inventory at 31 March 2013.

[9

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