UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/42**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2013**

2 hours

Additional Materials: Answer Booklet/Paper

3184799459

READ THESE INSTRUCTIONS FIRST

If you have been given an Answer Booklet, follow the instructions on the front cover of the Booklet.
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 any diagrams, graphs or rough working.
Do not use staples, paper clips, highlighters, glue or correction fluid.

Answer **all** questions.
All accounting statements are to be presented in good style.
International accounting terms and formats should be used as appropriate.
Workings should 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 **7** printed pages and **1** blank page.

IB13 11_9706_42/6RP

UNIVERSITY *of* CAMBRIDGE
International Examinations

1 Alvin, Bertram and Chana are in partnership preparing accounts to 30 June. They share profits and losses in the ratio 4:3:1. On 30 June 2013, the partners decided to convert the business to a new limited company, Albech Ltd.

Statement of Financial Position at 30 June 2013

		$	$
Assets			
Non-current assets (NBV)			250 000
Current assets			
Inventories		89 345	
Trade receivables		53 485	
Cash and cash equivalents		9 250	
			152 080
Total assets			402 080
Equity			
		$	$
Capital account	Alvin	75 000	
	Bertram	90 000	
	Chana	60 000	
			225 000
Current account	Alvin	24 840	
	Bertram	44 950	
	Chana	18 555	
			88 345
Total equity			313 345
Liabilities			
Non-current liabilities			
Alvin 8% loan account		40 000	
Current liabilities			
Trade payables		48 735	
Total liabilities			88 735
Total equity and liabilities			402 080

The terms of the transfer were as follows:

1 The agreed valuation of the business was $475 000.

2 Consideration was to be satisfied as follows.
   200 000 ordinary shares of $1 each.
   200 000 8% non-redeemable preference shares of $0.50 each.
   Sufficient 10% long term debentures to enable Alvin to receive the same amount of annual interest he currently receives on his loan.
   The balance to be cash in the form of a long term bank loan.

3 The ordinary shares and cash were allocated in the profit sharing ratio whilst the preference shares were allocated in the ratio of the capital account balances at 30 June 2013.

4 All assets and liabilities were transferred to the new company with the exception of trade receivables, trade payables and the cash and cash equivalents.

5 A bad debt of $720 was written off.

6 Discounts of $3060 were agreed with the suppliers.

7 All other assets were transferred at their book value.

8 The loan from Alvin was repaid to him.

REQUIRED

(a) Prepare the partnership realisation account. [8]

(b) Prepare the bank account. [8]

(c) Prepare the partners' capital accounts to close the partnership. [8]

(d) Prepare the opening statement of financial position of Albech Ltd at 1 July 2013. [10]

[Total: 34]

BLANK PAGE

2 Swiftsure plc has provided the following financial information for the year ended 31 March 2013.

Income Statement for the year ended 31 March

	2013 $000	2012 $000
Revenue	756	942
Cost of sales	(454)	(528)
Gross profit	302	414
Distribution costs	(126)	(130)
Administrative expenses	(200)	(165)
Profit/(Loss) from operations	(24)	119
Income from investments	5	4
Finance costs	(12)	(12)
Profit/(Loss) before tax	(31)	111
Tax	0	(25)
Profit/(Loss) for the year attributable to equity holders	(31)	86

Statement of changes in equity for the year ended 31 March

Retained earnings	2013 $000	2012 $000
Balance at start of year	110	70
Profit/(Loss) for the year	(31)	86
Dividends paid	(49)	(46)
Balance at end of year	30	110

Statements of Financial Position at 31 March

	2013	2012
	$000	$000
Assets		
Non-current assets		
Property plant and equipment	274	217
Goodwill	90	90
Investments	75	75
	439	382
Current assets		
Inventories	74	54
Trade and other receivables	95	65
Cash and cash equivalents	-	76
	169	195
Total assets	608	577
Equity		
Ordinary shares	180	120
Non-redeemable preference shares	100	80
Share premium	30	-
Retained earnings	30	110
Total equity	340	310
Liabilities		
Non-current liabilities		
6% debentures	150	200
Current liabilities		
Trade and other payables	57	42
Current tax liabilities	-	25
Bank overdraft	61	-
	118	67
Total liabilities	268	267
Total equity and liabilities	608	577

Note to the statement of financial position at 31 March 2013

	Buildings	Plant & equipment	Motor vehicles	Total
	$000	$000	$000	$000
Cost				
Balance at 1 April 2012	240	110	24	374
Purchases	80	68	12	160
Disposals	-	(20)	-	(20)
Balance at 31 March 2013	320	158	36	514
Depreciation				
Balance at 1 April 2012	87	62	8	157
Disposals	-	(12)	-	(12)
Charge for the year	55	28	12	95
Balance at 31 March 2013	142	78	20	240
Net book value				
Balance at 31 March 2013	178	80	16	274
Balance at 31 March 2012	153	48	16	217

During the year plant and equipment was sold for $5000.

Additional information

1 $50 000 of the 6% debentures were redeemed at par on 31 March 2013.

2 20 000 additional $1 non-redeemable preference shares were issued at par on 1 October 2012. Preference dividends of $4000 were paid during the year.

3 A rights issue of 1 new ordinary $1 share for every 2 held at a premium of $0.50 was made on 1 January 2013. No new shares had been issued in the year ended 31 March 2012.

4 A final dividend on the ordinary shares of $0.30 per share was paid on 30 June 2012 and an interim dividend of $0.05 per share was paid on 31 March 2013.

REQUIRED

(a) Prepare a statement of cash flows for the year ended 31 March 2013 in accordance with IAS 7. [28]

(b) **(i)** Explain the difference between a cash budget and a statement of cash flows. [4]

(ii) State **two** purposes for which Swiftsure plc would use a statement of cash flows. [4]

(c) Explain the term 'impairment of non-current assets' with reference to IAS 36. [4]

[Total: 40]

3 Sanghera Manufacturing plc produces office desks in two versions, standard and superior. The following information is available.

Per unit	Standard	Superior
Direct materials	5 kilos at $4.60 per kilo	6 kilos at $6 per kilo
Direct labour	3 hours at $8 an hour	3 hours at $9 an hour
Other variable costs	$10	$14
Selling price	$79	$103
Maximum demand per month	4000 units	3000 units

Total fixed costs for a month are $130 000.

REQUIRED

(a) Prepare a marginal costing statement showing the maximum monthly profit which can be achieved. [6]

In recent months only 33 800 kilos of raw materials have been available for purchase.

REQUIRED

(b) Calculate the maximum monthly profit which can be achieved when there is a shortage of raw material. [11]

The directors of Sanghera Manufacturing plc are considering investing in new machinery which would reduce wastage of raw materials. If the new machinery is purchased the usage of raw materials would be reduced by 9%.

Annual depreciation on the new machinery would be $12 000 higher than that on the old machinery.

The additional funds required to finance the purchase of the new machinery could be used elsewhere to bring in an income of $24 000 a year.

The use of the new machinery would cause other variable costs to rise to $12 per unit for the standard model and $15.50 for the superior model.

REQUIRED

(c) Calculate the maximum monthly profit which could be achieved with the new machinery, assuming that the shortage of raw material continues. [13]

(d) Advise the directors whether they should proceed with the purchase of the new machinery. [2]

The directors of Sanghera Manufacturing plc wish to raise additional finance for investment purposes.

REQUIRED

(e) **(i)** Identify **two** possible sources of finance the directors could use. [2]

(ii) Explain **one** advantage and **one** disadvantage of each method you have chosen. [6]

[Total: 40]