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Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2015**

2 hours

No Additional Materials are required.

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READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **6** printed pages, **2** blank pages and **1** insert.

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1 The directors of Corbiere plc have extracted the following balances from the books of account at 30 September 2015.

	Dr $	Cr $
6% debentures (2020)		68 000
Accrued expenses		2 480
Administrative expenses	63 810	
Cash and cash equivalents		12 770
Carriage inwards	3 600	
Distribution costs	49 330	
Interest paid	3 060	
Inventories at 1 October 2014	62 500	
Motor vehicles		
Cost	84 600	
Provision for depreciation		38 760
Plant and machinery		
Cost	68 700	
Provision for depreciation		32 300
Prepaid expenses	4 400	
Property	220 000	
Purchases	392 340	
Retained earnings		69 700
Returns inwards	3 470	
Returns outwards		2 780
Revenue		756 690
Share capital ($1 ordinary shares)		50 000
Share premium		15 000
Trade payables		48 730
Trade receivables	86 500	
Wages and salaries	54 900	

Additional information

The directors have discovered the following.

1 Inventories have all been valued at cost at $73 100 on 30 September 2015.
Included in this valuation are some items which originally cost $5000 but have been damaged. They would normally sell for $10 000. The items could be repaired at a cost of $3000 and then sold for $6500.

2 On 13 October 2015 a flood resulted in the loss of inventory valued at $17 500.

3 Purchase of new plant and machinery on 1 October 2014 of $6000 has been posted in error to administrative expenses.

4 Motor vehicles are to be depreciated at 20% per annum using the straight-line method. The estimated residual value of motor vehicles is $20000. Depreciation is apportioned 80% to distribution costs and the remainder to administrative expenses.

5 Plant and machinery is to be depreciated at 15% per annum using the reducing balance method. Depreciation is apportioned 80% to administrative expenses and the remainder to distribution costs.

6 A payment for administrative expenses of $14 400 has been made on 15 January 2015 covering the period from 1 February 2015 to 31 January 2016.

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7 At 30 September 2015 there was an additional accrual for wages and salaries of $1700. Wages and salaries are apportioned between distribution costs and administrative expenses in the ratio 4 : 1.

8 The 6% debenture included in the balances was issued on 1 October 2014.

9 The taxation charge for the year is $28 200.

10 The directors wish to create a provision for doubtful debts equal to 2% of trade receivables at 30 September 2015. This provision is to be treated as an administrative expense.

11 The directors proposed a final dividend of $0.05 per share. No dividends were paid during the year.

REQUIRED

(a) Prepare the income statement for the year ended 30 September 2015 in accordance with International Accounting Standards. [21]

(b) Prepare the statement of financial position at 30 September 2015 in accordance with International Accounting Standards. [13]

(You are not required to prepare notes to financial accounts.)

(c) Explain your treatment of points **1**, **2** and **11** in the additional information. [6]

[Total: 40]

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2 Arial and Bodoni were in partnership sharing profits and losses in the ratio 3 : 2.

The partners did not keep separate current accounts. The credit balances on their capital accounts at 31 March 2014 were Arial $76 000 and Bodoni $64 000.

They merged their partnership with Caslon, a sole trader, on 1 April 2014.

Caslon provided the following information at 31 March 2014.

	$
Land and buildings	65 000
Plant and equipment	15 000
Net current assets	25 000
Capital at 31 March 2014	64 000
Profit for the year	96 000
Drawings	55 000

Caslon has agreed that the following adjustments should be made at 1 April 2014.

1 The land and buildings are to be revalued at $80 000.
2 Additional depreciation of $3000 is to be provided on the plant and equipment.
3 The net current assets are to be written down by $5000.

In the new partnership, Caslon receives a salary of $80 000.
The new profit sharing ratio is 5 : 4 : 1.

No goodwill accounts were retained in either set of books before the merger. However, goodwill was valued at $120 000 for Arial and Bodoni's partnership and at one year's profits for Caslon's business. No goodwill account is to be kept in the books of the new partnership.

REQUIRED

(a) Prepare the partners' capital accounts at 1 April 2014 after the merger has taken place. [11]

Additional information

The following balances were extracted from the statement of financial position of Arial and Bodoni's partnership at 31 March 2014 before the merger.

	$
Land and buildings	95 000
Plant and equipment	25 000
Net current assets	20 000

The following information is also available for the **new** partnership at 1 April 2014.

Current ratio	3 : 1
Liquid (acid test) ratio	2 : 1
Total trade receivables	$35 000
Total trade payables	$20 000

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REQUIRED

(b) Calculate the total net current assets of the new partnership. [1]

(c) Prepare the statement of financial position of the new partnership on 1 April 2014 in as much detail as possible. [10]

Additional information

The new partnership also does not maintain current accounts for each partner. For the year ended 31 March 2015, the partnership made a profit of $260 000 before taking into account Caslon's salary. The partners' drawings for the year were:

	$
Arial	47 000
Bodoni	68 000
Caslon	110 000

REQUIRED

(d) Prepare the partners' capital accounts at 31 March 2015. [7]

Additional information

The partners are now considering selling their business. They have been advised that goodwill should be valued at 1.25 times one year's profit of partnership.

(e) Calculate the estimated value of the business at 31 March 2015. [8]

(f) Explain how goodwill has arisen in the new partnership. [3]

[Total: 40]

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3 In April Amit introduced a new standard costing system.

He produces and sells one item. The standard production is 5000 units. Amit does not have any opening inventory. Closing inventory is valued at full standard cost.

The standard costs per unit were as follows:

Direct materials	3 kilos at $5 per kilo
Direct labour	4 hours at $8 per hour
Overheads	2 hours at $3.50 per hour

The selling price will allow Amit a profit on the full standard cost of 17.5%.

REQUIRED

(a) Calculate the standard selling price per unit. [3]

Additional information

The actual results for April were:

Production	5100 units
Sales	5040 units $65.25 each
Direct materials used	15 450 kilos
Direct material cost	$78 795
Direct labour hours	20 250
Direct labour cost	$172 125
Overhead variance	$300 adverse

REQUIRED

(b) Calculate the following variances for April, clearly identifying which variance you have calculated.

- **(i)** Sales price
- **(ii)** Sales volume
- **(iii)** Total sales
- **(iv)** Direct material price
- **(v)** Direct material usage
- **(vi)** Total material
- **(vii)** Direct labour rate
- **(viii)** Direct labour efficiency
- **(ix)** Total labour [18]

(c) Explain how the direct labour variances may have arisen during April. [5]

(d) Calculate the actual profit for April. [4]

(e) Calculate the budgeted profit for the actual units sold for April. [3]

(f) Prepare a statement reconciling the budgeted profit with actual profit. Start your statement with your answer is part **(e)**. [7]

[Total: 40]

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