Cambridge International Examinations Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

Paper 4 Problem Solving (Supplementary Topics)

9706/43 May/June 2015 2 hours

No Additional Materials are required.

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.

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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 8 printed pages and 1 insert.



1 The directors of Plantin plc have produced the following.

Plantin plc
Statement of Financial Position at 1 April 2014

SSSCostDepreciationNet book valueNon-current assetsTangibleNet book valueProperty, plant and equipment260 00090 000170 000Plant and equipment152 00087 00065 0001nvestments152 000177 000235 000Investments55 000290 00010000Intangible37 000290 00010000Goodwill80 00037 00037 000Current assets45 00056 000101 000Inventories45 00056 000101 000Total assets47 100047 1000100 000S% Non-redeemable \$1 preference shares80 00011 0000S% debentures100 000290 000100 000S% debentures100 000100 000	Statement of Financial Fos	•		•
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290 000 Non-current liabilities	•			
Non-current liabilities				
				200000
	Non-current liabilities			
				100.000
	5% debendres			100000
Current liabilities	Current liabilities			
				24.000
Trade and other payables24000Togetier40000				
Taxation 40 000				
Cash and cash equivalents <u>17000</u>	Cash and cash equivalents			
<u>81000</u>				
Total equity and liabilities471000	Total equity and liabilities			<u>471000</u>

3

The following information is also available for the following year.

Extract from Income Statement for the year ended 31 March 2015

		\$
Profit from operations		74000
Income from investments		5000
Finance costs		<u>(12000)</u>
Profit before taxation		67 000
Taxation		<u>(15000)</u>
Profit for the year		52000
Statement of cash flows for the year ended 31 Ma	rch 2015	
	\$	\$
Operating activities		
Profit from operations		74000
Depreciation - buildings		28000
- plant and equipment		33000
Impairment of goodwill		20000
Increase in inventories		(30000)
Increase in trade receivables		(40 000)
Increase in trade payables		30000
Cash from operations		115000
Interest paid		(12000)
Tax paid		<u>(40 000)</u>
Net cash flow from operations		63000
Investing activities		
Purchase of non-current assets	()	
- buildings	(80,000)	
- plant and equipment	(80000)	
Income from investments	5 000	
		(155000)
Financing activities		
Redemption of debentures	(50000)	
Proceeds of issue of non-redeemable preference shares	20000	
Proceeds of issue of 50 000 ordinary shares	80 000	
Dividends paid (preference)	<u>(4 000)</u>	
	<u>(+000)</u>	46000
Net decrease in cash and cash equivalents		(46 000)
Cash and cash equivalents at 1 April 2014		(40000) (17000)
Cash and cash equivalents at 1 April 2014 Cash and cash equivalents at 31 March 2015		<u>(63000)</u>
כמשו מות נמשו פקטועמובותש מנשר ועומוטון בטוש		(03000)

REQUIRED

- (a) Prepare an extract from the statement of changes in equity for the year ended 31 March 2015 showing the retained earnings column. [4]
- (b) Prepare the property, plant and equipment section of the non-current assets note to the statement of financial position at 31 March 2015. [7]
- (c) Prepare Plantin plc's statement of financial position at 31 March 2015. (Comparatives are not required.)

Additional information

The directors of Plantin plc have recently discovered a material error in the published financial statements for the year ended 31 March 2014. It was discovered that sales of \$30,000, which had never taken place, had been included in revenue and in trade receivables.

REQUIRED

(d) (i) State how this error has affected the financial statements for the year ended 31 March 2014.

[4]

[21]

(ii) Explain how the directors of Plantin plc should deal with this error in its financial statements in accordance with IAS 8. [4]

[Total: 40]

2 Abdul, Barry and Chandra are in partnership sharing profits and losses in the ratio 3:2:1. No current accounts are maintained.

The following information is available.

Statement of Financial Position at 30 April 2015

	\$
Assets	
Non-current assets	
Property	500 000
Equipment	132000
Vehicles	<u>150 000</u>
	<u>782000</u>
Current assets	
Inventories	38000
Trade receivables	1 0 0 0
Cash and cash equivalents	66 000
	105000
Total assets	887000
Capital	
Abdul	441000
Barry	294 000
Chandra	147 000
	882000
Liabilities	
Current liabilities	
Trade payables	5000
Total capital and liabilities	<u>887 000</u>

Chandra decided to retire at the close of business on 30 April 2015 and the following was agreed:

- 1 Goodwill was valued at \$180 000 and was not to be retained in the books.
- 2 Chandra was to be paid \$60,000 from the business bank account.
- 3 Any money still due to Chandra will be treated as a long-term loan to the new partnership of Abdul and Barry.
- 4 Abdul and Barry will continue to trade and will share profits and losses in the ratio 3:2.

REQUIRED

- (a) Prepare the partners' capital accounts at 30 April 2015. [10]
- (b) Prepare the opening statement of financial position of the new partnership of Abdul and Barry at 1 May 2015. [5]

Additional information

Chandra wishes to invest the \$60000 which he received from the partnership. He is considering acquiring a debenture **or** convertible loan stock.

REQUIRED

(c) Explain what is meant by a debenture and convertible loan stock highlighting the major difference between them. [5]

Additional information

Alternatively, Chandra is considering investing in ordinary shares. He has obtained the summarised financial statements of two companies, Richards Limited and Sobers Limited.

The following data is available.

	Richards Limited \$	Sobers Limited \$	
Income Statements			
Gross profit Profit from operations Finance charges Profit before tax Tax Profit after tax	85000 66000 (6000) 60000 (30000) 30000	<u>65000</u> 48000 <u>(8000)</u> 40000 <u>(20000)</u> 20000	
Statements of Financial Position			
Total assets	<u>500 000</u>	<u>400 000</u>	
Equity \$1 ordinary shares Share premium Retained earnings	150 000 15 000 <u>105 000</u> <u>270 000</u>	100 000 20 000 <u>85 000</u> <u>205 000</u>	
Non-current liabilities 8% debentures (2022)	75000	100 000	
Current liabilities	<u>155000</u>	95000	
Total equity and liabilities	<u>500 000</u>	<u>400000</u>	

Both companies have non-current assets equal in value to their current assets.

The market value of an ordinary share in Richards Limited is \$1.80.

The market value of an ordinary share in Sobers Limited is \$2.40.

Neither company has paid any dividends during the year.

Richards Limited proposes a final dividend of \$0.06 per ordinary share and Sobers Limited \$0.09 per ordinary share.

REQUIRED

(d) Calculate the following ratios for **both** companies.

- (i) Current ratio
- (ii) Return on capital employed
- (iii) Gearing ratio
- (iv) Income gearing
- (v) Earnings per share
- (vi) Price earnings ratio
- (vii) Dividend yield.
- (e) Advise Chandra which company he should invest in. Base your answer on your calculations for the return on capital employed, gearing ratio and income gearing **only**. [6]

[Total: 40]

[14]

	Process 1	Process 2	Process 3
Direct materials per unit	4 kilos at \$6 per kilo	2 kilos at \$5 per kilo	1 kilo at \$3 per kilo
Direct labour per unit	2 hours at \$10 per hour	2 hours at \$12 per hour	3 hours at \$14 per hour
Variable overheads per unit	\$2 per direct labour hour	\$2 per direct labour hour	\$2 per direct labour hour
Fixed overheads per completed unit	\$9	\$6	\$4
Rate of normal loss sold as scrap	None	10%	None
Scrap value per unit	Not applicable	\$50	Not applicable
Work-in-progress maintained	No	No	Yes

Following information about the three processes was available.

At the end of Process 1 production was transferred to Process 2 with a value of \$684000.

REQUIRED

(a) Calculate

	(i)	the cost per unit at the end of Process 1	[1]	
	(ii)	the number of units transferred from Process 1 to Process 2	[3]	
(b)	Prepare			
	(i)	the Process 1 account	[5]	
	(ii)	the Process 2 account	[8]	
(c)	Cal	culate		

- (i) the number of units transferred from Process 2 to Process 3 [2]
- (ii) the cost per unit at the end of Process 2, to **two** decimal places [2]

Additional information

It has been discovered that if a higher grade of materials costing \$8 per kilo had been used in Process 2, the rate of normal loss would have been reduced by 50%.

REQUIRED

(d) Calculate a revised cost per unit at the end of Process 2 assuming the higher grade materials had been used. Advise management whether these materials should have been bought. [9]

Additional information

On 30 April 2015, at the end of Process 3 there were 3000 units 75% complete as to direct materials and 25% complete as to direct labour.

REQUIRED

(e) Calculate the value of the work-in-progress at 30 April 2015. [5]

Additional information

The accountant has been asked to prepare a costing report on the order at 30 April 2015.

REQUIRED

(f) Advise the accountant what items might be included in his report. [5]

[Total: 40]

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