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

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2009**

2 hours

Additional Materials: Answer Booklet/Paper

2049128241

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. 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.

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1 Yip and Sim have been in partnership for many years sharing profits and losses in the ratio 2 : 1 respectively. The partners do not take an active part in running the business. Instead, Danny has managed the business for them for the past few years.

The partners provide the following balance sheet at 31 January 2009:

	$	$
Fixed assets at cost	129 000	
Depreciation to date	51 600	77 400
Current assets		
Stock	38 700	
Trade debtors	25 800	
Bank balance	9 675	
	74 175	
Current liabilities		
Trade creditors	18 850	55 325
		132 725
Capital accounts		
Yip		80 000
Sim		50 000
Current accounts		
Yip		4 875
Sim		(2 150)
		132 725

Profits shared by the partners for each of the past three years have been $39 000 after paying Danny a manager's salary of $27 000. It is believed that this level of profitability can be maintained in the future.

Danny wishes to expand the business. This would involve expenditure on new fixed assets at a cost of $250 000. The finance for the new fixed assets would be in the form of a loan at 8 % interest per annum.

Yip, Sim and Danny all agree that the expansion should take place. This would increase the operating profit by $50 000.

Yip and Sim are considering retirement from the business.

Yip and Sim offer Danny two options.

Option 1: Danny will be admitted to the business as a partner. He would introduce a total of $60 000 cash for his capital and goodwill. He would be entitled to 75 % of profits and losses, the remainder being shared by Yip and Sim in the same ratios as previously. Danny would keep his salary as a manager.

Yip, Sim and Danny agree that:

(i) the existing fixed assets of the business would be revalued at $100 000;

(ii) stock would be valued at $38 100;

(iii) a debt of $1000 would be written off as bad;

(iv) goodwill would be valued at $72 000 but would not be shown in the books of account;

(v) the proposed expansion would take place immediately.

Option 2: Danny would buy all the assets including cash and assume all the liabilities of the business for a payment of $185 000. The expansion would also take place immediately.

REQUIRED

(a) Prepare the balance sheet of the partnership as it would appear immediately after **option 1** was implemented. [20]

(b) Prepare the balance sheet of Danny as it would appear immediately after **option 2** was implemented. [8]

(c) Compare the annual profits to be gained by Danny from the implementation of **each** of the options being considered. [7]

(d) Advise Danny which option he should choose. Support your answer with financial data. [5]

[Total: 40]

2 The managers of Svennsen Ltd provide the following information.

Selected balances at 1 October 2009

	$
Fixed assets (Net book value)	210 000
Ordinary issued share capital	150 000
Profit and loss account	27 150
Revaluation reserve	25 000
Share premium account	40 000
Stock	1 000

Cash budget for the six months ending 28 February 2010

	Sept	Oct	Nov	Dec	Jan	Feb
	$	$	$	$	$	$
Receipts						
Cash sales	4 600	3 700	4 700	4 800	4 600	4 200
Debtors (1 month's credit)	24 000	23 000	18 500	23 500	24 000	23 000
Debtors (2 month's credit)	16 800	19 200	18 400	14 800	18 800	19 200
Sale of fixed assets			8 000			
	45 400	45 900	49 600	43 100	47 400	46 400
Payments						
Creditors (1 month's credit)	22 000	21 000	18 000	21 000	24 000	20 000
General expenses	14 500	16 800	16 600	20 400	17 700	15 900
Ordinary dividend				4 000		
Purchase of fixed asset			8 500			
	36 500	37 800	43 100	45 400	41 700	35 900
Net cash flow	8 900	8 100	64 500	(2 300)	5 700	10 500
Balance b/fwd	(9 250)	(350)	7 750	14 250	11 950	17 650
Balance c/fwd	(350)	7 750	14 250	11 950	17 650	28 150

REQUIRED

(a) Explain **two** measures that might be taken to resolve a forecast cash deficit in **one** month. [4]

Additional information:

1 10 % of sales each month are cash sales.

50 % of sales are expected to be settled one month following the sale.

The remaining 40 % of sales are expected to be settled two months after sale.

2 All purchases will be on credit. Suppliers will be paid in the month following purchase.

3 General expenses will be paid as incurred.

4 A bonus issue of 1 new ordinary share for every 3 held will be made on 1 December 2009. The directors propose that equal amounts are used from the company's capital reserves.

5 Fixed assets will be purchased on 1 November 2009 for $17 000. Half of the cost will be paid on that date, the balance will be paid on 1 April 2010.

6 Fixed assets that cost $20 000 will be sold in November 2009 for $8000. They will have been depreciated by $11 000 at the date of sale.

7 Fixed assets are depreciated at 10 % per annum on net book value at the balance sheet date.

8 Stock at 31 December 2009 was valued at $2000.

REQUIRED

(b) Prepare a forecast trading and profit and loss account and an appropriation account for the **three months ending** 31 December 2009 in as much detail as possible. [19]

(c) Prepare a forecast balance sheet at 31 December 2009 in as much detail as possible. [17]

[Total: 40]

3 The Clang company manufactures parts for the car industry. The company has two production departments and a works canteen that provides meals and refreshments for the two production departments.

The following information is available:

Department	A	B	Canteen
Floor area (m^2)	13 000	10 000	2 000
Staff employed	30	70	10
Power used (Kwh)	1 200	300	100
Cost of machinery	$80 000	$20 000	$5 000

The following budgeted costs for the month of May have not been apportioned to a department.

	$
Rent and rates	10 000
Insurance of machinery	2 625
Heating and lighting expenses	7 500
Supervisory wages	12 100
Power	4 800
Depreciation of machinery	9 030

Additional budgeted information per month

	Department A	Department B
Direct labour hours	5 120	12 605
Direct machine hours	17 250	1 000

REQUIRED

(a) Prepare a statement showing the apportionment of overheads for the month of May. [17]

(b) Calculate an overhead absorption rate for department A and department B using the most appropriate method. [8]

The managers of the Clang company have been asked to cost a new job, reference 55/ZR.

The job would require:

6 kilos of materials costing $7.40 per kilo;

Other variable costs of $30.50.

The job would spend 14 hours in department A and a further 6 hours in department B.

The job would be marked up by 60 % on cost to achieve the selling price.

REQUIRED

(c) Calculate the price to be quoted to the customer for job 55/ZR. [8]

The Kustom Bilt car company requires a special component for one of its cars. This will be a unique "one off" order.

The special component would take:

5 kilos of materials at $7.40 per kilo;
Variable overheads of $18.30;
It will require extra power estimated to cost $28.00.

The component will spend 10 hours in department A and 5 hours in department B.

The managers of Clang have calculated a selling price of $170.08. Kustom Bilt cars are only willing to pay $100.

REQUIRED

(d) Advise the managers of Clang whether or not they should accept the order from Kustom Bilt cars at a price of $100. Support your answer with financial and non financial data. [7]

[Total: 40]

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