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

ACCOUNTING **9706/04**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2007**

2 hours

Additional Materials: Answer Booklet/Paper

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.

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

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1 Ben and Josie have been in partnership for a number of years sharing profits and losses in the ratio 2 : 1 respectively.

Their balance sheet at 30 April 2006 was as follows:

		$	$
Fixed assets			
Premises			60 000
Equipment			20 000
Vehicle			18 000
			98 000
Current assets			
Stock		6 000	
Debtors		4 000	
Bank		2 000	
		12 000	
Creditors		7 000	5 000
			103 000
Partner's 6 % loan – Josie			25 000
			78 000
Capital accounts	Ben	40 000	
	Josie	35 000	75 000
Current accounts	Ben	(1 000)	
	Josie	4 000	3 000
			78 000

On 1 May 2006 they admitted Melvyn to the partnership.

Melvyn introduced $30 000 cash as his capital. The partners agreed the following asset revaluations:

	$
Premises	100 000
Equipment	15 000
Vehicle	10 000
Goodwill	21 000

It was further agreed that goodwill would not appear in the new partnership's books of account. Any adjustments were to be made through the partners' capital accounts.

The partners would in future share profits and losses in the ratio Ben 3, Josie 2 and Melvyn 2.

REQUIRED

(a) Prepare capital accounts at 1 May 2006 immediately **after** Melvyn's entry to the partnership. [10]

Since Melvyn's entry into the partnership business has declined. Property prices have also gone down.

On 31 October 2006 Ben decided to reduce his involvement in the business due to ill health. The partners drew up the following new partnership agreement which would take effect from 1 November 2006.

1 Melvyn is to be credited with a partnership salary of $8000 per annum.

2 Interest on capital account balances is to be credited at 8 % per annum.

3 Residual profits are to be shared in the ratio of Ben 1, Josie 3 and Melvyn 2.

4 The following asset values were agreed by the partners:

	$
Premises	75 000
Equipment	12 600
Vehicle	8 000
Goodwill	15 000

It was further agreed that any adjustments were to be made through the partners' capital accounts.

It was agreed by the partners that the total capital of the business should not change but that the capital account balances should reflect the new profit sharing ratios. Partners were to introduce or withdraw capital to achieve this.

REQUIRED

(b) Prepare capital accounts at 31 October 2006 **after** the restructuring of the partnership. [14]

The partnership net profit for the year ended 30 April 2007, before loan interest, was $42 500.

70 % of profits were earned in the period 1 May 2006 to 31 October 2006.

The partners' drawings for the year were:

	$
Ben	18 000
Josie	17 000
Melvyn	16 000

REQUIRED

(c) Prepare partnership current accounts for the year ended 30 April 2007. [16]

[Total: 40]

2 The draft balance sheet at 30 April 2007 for O'Really Ltd, an electrical goods retailer, is shown below. Unfortunately it did **not** balance, and a suspense account was created.

Balance Sheet at 30 April 2007

	$	$
Fixed assets		
Premises		500 000
Other tangible fixed assets		710 000
		1 210 000
Current assets		
Stock	60 000	
Debtors	8 000	
Bank	14 000	
	82 000	
Creditors: amounts falling due in less than one year	42 000	40 000
Suspense account		180 000
		1 430 000
Share capital and reserves		
Ordinary shares of $1 each fully paid		750 000
7% redeemable preference shares fully paid		250 000
Share premium		62 500
Profit and loss account		367 500
		1 430 000

After the preparation of the draft final accounts for O'Really Ltd for the year ended 30 April 2007 the following items were revealed, all of which need to be included in the final accounts.

1 On 1 May 2006 O'Really Ltd purchased the business of a rival retailer. As part of the purchase price O'Really paid $180 000 for goodwill. The directors were unsure how to treat the goodwill. It had been entered in a suspense account. It is estimated that the economic life of the goodwill will be 4 years.

2 O'Really's sales have doubled over the past few years and the directors believe that they have a very good business reputation. As a result they propose to introduce a further $120 000 as additional goodwill.

3 The directors of O'Really Ltd valued stock at cost. The closing stock at 30 April 2007 has been valued at $60 000. Included in the closing stock were 6 air conditioning units that had been damaged in a recent flood. The units cost $220 each and normally sell for $350 each. The 6 damaged units could be sold for $250 each after undertaking total repair costs of $400. The 6 units could be replaced for $200 each.

4 On 1 May 2006 the business premises were re-valued from a net book value of $500 000 to $750 000. Premises are depreciated at 2 % per annum. The revaluation had not been included in the books of account.

5 No provision has been made for doubtful debts. The directors feel that 5 % would be appropriate.

REQUIRED

(a) Identify the appropriate accounting standard for **each** of the items 1-5. [5]

(b) Calculate the profit and loss account balance at 30 April 2007 showing clearly the effect of **each** of the items 1-5. [11]

(c) Prepare a balance sheet at 30 April 2007 taking into account items 1-5. [12]

On 1 May 2007 before any other transactions were undertaken 200 000 preference shares were redeemed at a premium of 10 cents each. The preference shares were originally issued at a premium of 5 cents each. The redemption was financed out of a new issue of 100 000 ordinary shares of $1 each at a price of $1.50 each.

REQUIRED

(d) Prepare the share capital and reserves section of the balance sheet at 1 May 2007 after the redemption of the preference shares and the issue of the ordinary shares. [12]

[Total: 40]

3 Clumber Ltd manufactures one product. The product passes through three processes.

The cost accountant provides the following information:

	Process 1	**Process 2**
Materials per unit	4 kilos	1 kilo
Cost of materials per kilo	$1.50	$4
Cost of materials used in process	$300 000	$192 800
Direct labour per unit	3 hours	1½ hours
Labour cost per hour	$12	$10
Variable overhead per labour hour	$8	$6.50
Fixed overhead per unit	$5	$8
Actual output per process (units)	48 600	47 000

Additional information:

Process 1	There was no opening or closing stocks of work in progress. Normal loss in this process was $6000.
Process 2	There was no opening work in progress. Closing stock of work in progress was 1600 units. Closing stock of work in progress was 75 % complete as to materials and 50 % complete as to labour.

REQUIRED

(a) Prepare accounts for process 1 and process 2. [27]

(b) Calculate the cost of **one** completed unit of production

(i) in process 1; [1]

(ii) in process 2. [1]

All completed units from process 2 were used in process 3. The costs involved in process 3 were:

	Process 3
Materials	$320 000
Labour	$820 000
Variable overheads	$342 770
Fixed overheads	$295 000

Waste materials arising in process 3 were sold for $620.

There was no opening or closing stocks of work in progress in Process 3.

REQUIRED

(c) Prepare an account for process 3. [4]

(d) Calculate the cost of **one** completed unit of production of process 3. [2]

Clumber Ltd receive an order from Thomson Ltd for 20 units at a price of $300 each. Delivery charges incurred by Clumber Ltd will be $1020.

REQUIRED

(e) Calculate the profit margin on the order from Thomson Ltd. [5]

[Total: 40]

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