UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2012**

2 hours

Additional Materials: Answer Booklet/Paper

3530169038

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.

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International Examinations

1 Nathan Akrill is a sole trader who has successfully run a manufacturing business for many years. His business manufactures one product, the squam.

On 1 January 2011 there were 1000 squams in inventory. During the year 10 318 squams were produced by the factory and transferred to the sales department. On 31 December 2011 there were 1240 squams in inventory. Nathan Akrill uses the FIFO method of inventory valuation.

Production is transferred from the factory to the sales department at cost plus 40%.

Unfortunately the book-keeper was taken ill at the year end and Nathan Akrill decided he would have to produce his financial statements himself. He did not know how to value the inventory of finished goods at that date. Therefore he decided to value each squam at the same value as had been used on 1 January 2011.

Nathan Akrill produced the following:

Income statement for the year ended 31 December 2011

	$	$	$
Revenue			880 000
Inventory at 1 January 2011			
Raw materials		31 000	
Finished goods		58 800	
		89 800	
Purchases of raw materials		261 000	
		350 800	
Inventory at 31 December 2011			
Raw materials	46 400		
Finished goods	72 912	119 312	
Cost of sales			231 488
Gross profit			648 512
Manufacturing wages		166 000	
Supervisory wages		42 800	
Factory rent		36 000	
Office rent		21 000	
Depreciation of factory machinery		13 800	
Depreciation of office equipment		2 900	
Direct expenses		9 200	
Carriage on raw materials		2 500	
Administrative and selling expenses		201 000	
			495 200
Profit for the year			153 312

Statement of Financial Position at 31 December 2011

	$	$	$
Non-current assets			570 000
Current Assets			
Inventory			
Raw materials	46 400		
Finished goods	72 912		
		119 312	
Trade receivables		96 200	
Bank		11 000	
		226 512	
Current liabilities			
Trade payables		(84 100)	
			142 412
			712 412
Capital			
Balance at 1 January 2011			622 300
Profit for the year			153 312
Drawings			(80 000)
			695 612

REQUIRED

(a) Prepare, for the year ended 31 December 2011:

(i) the manufacturing account; [10]

(ii) the provision for unrealised profit account; [8]

(iii) a corrected income statement. [13]

(b) Prepare a corrected statement of financial position at 31 December 2011. [7]

(c) Explain your treatment of finished goods in the inventory valuation. [2]

[Total: 40]

2 Hyung Ltd has the following statements of financial position

	At 31 March 2012		At 31 March 2011	
		$000		$000
Non-current assets (note 1)		1 700		1 260
Current assets				
Inventories	108		82	
Trade receivables	90		72	
Cash and cash equivalents	–		174	
	198		328	
Current liabilities				
Trade payables	52		108	
Cash and cash equivalents	41		–	
	93		108	
		105		220
Total assets less current liabilities		1 805		1 480
Non-current liabilities				
8% Debentures 2010-2020		120		200
		1 685		1 280
Equity and reserves				
Ordinary shares of $1 fully paid		1 400		1 000
Share premium		70		50
General reserve		200		200
Retained profits		15		30
		1 685		1 280

Notes

1. Non-current assets

	Freehold Property	Motor Vehicles	Total
	$000	$000	$000
At cost			
At 31 March 2011	2 000	370	2 370
Additions		808	808
Disposals		(240)	(240)
At 31 March 2012	2 000	938	2 938
Provisions for depreciation			
At 31 March 2011	910	200	1 110
Disposals	-	(108)	(108)
Charge for the year	100	136	236
At 31 March 2012	1 010	228	1 238
Net book value at 31 March 2011	1 090	170	1 260
Net book value at 31 March 2012	990	710	1 700

2. Proceeds from the sale of fixed assets

	$
Motor Vehicles	30 000

3. No dividends were paid during the year.

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REQUIRED

(a) Prepare, in accordance with IAS 7, a statement of cash flows for the year ended 31 March 2012. [24]

(b) Explain the difference between cash and profit. [2]

(c) Assess the liquidity and profitability of Hyung Ltd at 31 March 2012. [8]

Additional information:

The directors believe they should raise finance to use during 2013.

Their options are:

1 to take out a loan repayable over 5 years with interest at 6% per annum

or

2 to make a rights issue of one ordinary share for every 2 shares held, at a 5% discount on the current market price.

REQUIRED

(d) Explain **one** disadvantage of each of the possible methods of raising the finance. [6]

[Total: 40]

3 Kriti Singh manufactures one product, and uses absorption costing in valuation and pricing decisions.

Each product requires 3 kilos of raw material costing $8 per kilo, and 4 hours of direct labour at $7.50 per hour. Other direct production costs amount to $4 per unit.

The salesman is paid a commission and earns $2.50 for each item sold. The factory supervisor is paid $18 000 a year.

Costs of shipping to customers is $1 each.

Every time 50 units are completed maintenance costing $30 is performed on the machinery.

Factory rent is $24 000 a year.

Other fixed manufacturing costs amount to $12 000 a year. Variable administration costs amount to $8.20 per unit sold.

On 1 April 2012 there were no units in inventory. During the month 1250 units were produced. On 30 April 2012 there were 150 units unsold.

REQUIRED

(a) Calculate the value of one unit of inventory. [10]

Additional information

Kriti Singh uses a mark-up of 30% on total cost to calculate the selling price.

REQUIRED

(b) Starting with your answer from **(a)**, calculate the selling price of one unit. [6]

(c) Prepare an income statement for the month of April 2012. [7]

(d) Reconcile the total profit with the mark-up per unit. [3]

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Kriti Singh is considering expanding her business and manufacturing an additional product.

Projected costs and revenues for this product are:

Direct production costs	$60 per unit
Variable administration and distribution costs	$10 per unit
Rent of second factory	$30 000 a year
Supervisor's salary	$22 000 a year
Other fixed manufacturing costs	$18 000 a year

Production is expected to be 2000 units a year with no inventory of finished goods being held. She will use the same mark-up for the new product as at present.

REQUIRED

(e) Calculate the expected profit for the year. [2]

(f) Calculate the sensitivity of the expected profit to changes in:

(i) sales price; [2]

(ii) sales volume; [6]

(iii) variable costs; [2]

(iv) fixed costs. [2]

[Total: 40]

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