



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

ACCOUNTING

9706/04

Paper 4 Problem Solving (Supplementary Topics)

May/June 2009

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 **7** printed pages and **1** blank page.



- 1 Frame-Patel plc was established in the year 2000. A trainee accountant has prepared the following draft summarised final accounts for the year ended 31 March 2009. These accounts contain a number of serious **errors** of principle and presentation.

Profit and loss account for the year ended 31 March 2009

	\$000	\$000	\$000
Gross profit			1532
Expenses	873		
Depreciation	<u>76</u>		<u>949</u>
Operating profit			583
Taxation	160		
Ordinary dividends – interim paid	12		
final proposed	30		
Bonus issue of ordinary shares (note 1)	50		
Debenture interest paid	<u>15</u>		<u>267</u>
Retained earnings for the year			<u>316</u>

Balance sheet at 31 March 2009

Fixed assets			
Premises at cost (note 4)			500
Other fixed assets (net book value)			684
Goodwill (note 2)			<u>250</u>
			1434
Current assets		265	
Creditors: amounts falling due in less than one year			
Creditors and accruals	245		
7½% debenture (2029)	<u>200</u>	<u>445</u>	<u>(180)</u>
			<u>1254</u>
Share capital and reserves			
Ordinary shares of \$0.50 each, valued at issue price of \$0.70 each			350
Retained earnings			<u>904</u>
			<u>1254</u>

Additional information

- 1 A bonus issue of shares was made during the year. One bonus share was issued at par for every 5 shares already held. The bonus issue has been included in the draft profit and loss account for the year ended 31 March 2009 as an appropriation of profits and has been credited to retained earnings. It is company policy to maintain reserves in their most flexible form. The bonus shares did not attract a dividend in the year ended 31 March 2009.
- 2 The number of customers has doubled since the year 2000 and the value of the company's sales has trebled. The company is widely acknowledged to be one of the market leaders in its field. During the year the directors introduced goodwill into the company's books of account. They made the following entries in the ledger.

Dr	Goodwill	\$250 000
Cr	Retained earnings	\$250 000

- 3 A bad debt of \$40 000 that had been written off in 2006 has been recovered. This has been credited to retained earnings since the amount recovered arose from a sale in 2006.

- 4 Premises were purchased in the year 2000. The market value of the premises fell each year and were depreciated until 31 March 2008. They were valued by a professional valuer on 1 April 2008 at \$500 000, the value shown in the balance sheet at 31 March 2009. The increase of \$200 000 in the value of the premises has been credited to retained earnings. The accountant has not charged the usual 2 % depreciation this year since the premises are now no longer falling in value.

REQUIRED

- (a) Prepare a corrected profit and loss and appropriation account for the year ended 31 March 2009. [10]

- (b) Prepare a corrected balance sheet at 31 March 2009. [19]

Your friend Brian has just inherited \$10 000 and would like to invest in Frame-Patel plc. He is undecided whether to invest in ordinary shares (the current market price is \$1.70 per share) or in 7½% debentures that can be purchased at par value.

REQUIRED

- (c) Calculate the following ratios (show the formulae used):

(i) dividend per share;

(ii) dividend cover;

(iii) dividend yield. [6]

- (d) Discuss the merits and disadvantages of the **two** investments in Frame-Patel plc and advise Brian which one to choose. Give reasons for your choice. [5]

[Total: 40]

2 The balance sheet of Fodlast plc at 31 March 2009 is shown:

	\$000	\$000
Fixed assets		
Land and buildings		1200
Plant and machinery		700
Fixtures and fittings		<u>200</u>
		2100
Current assets		
Stock	90	
Trade debtors	<u>42</u>	
	132	
Creditors: amounts falling due in less than one year		
Trade creditors	(31)	
Bank overdraft	<u>(16)</u>	<u>85</u>
		2185
Creditors: amounts falling due in more than one year		
7% debentures (2021)		<u>(150)</u>
		<u>2035</u>
Share capital and reserves		
Ordinary shares of \$0.50 fully paid		1000
Share premium account		500
Profit and loss account		<u>535</u>
		<u>2035</u>

The directors of Fodlast plc have decided to close one section of the company.

Additional information

The section has the following assets and liabilities included in the company balance sheet shown above.

	\$000
Buildings	200
Plant and machinery	150
Fixtures and fittings	40
Stock	16
Trade creditors	(10)

The directors are considering two options.

Option 1: To close the section and to sell the assets and settle the liabilities.

It is anticipated that the buildings could be sold for \$250 000; the plant and machinery for \$80 000; fixtures and fittings for \$20 000; that stock would realise 75% of its book value and that discount received on creditors would amount to 10%.

Closure of the section would cost \$18 000 and make some workers redundant. This would result in Fodlast plc having to pay \$55 000 in redundancy payments.

Option 2: The managers of the section to be closed want to take over the section as a going concern, using the valuations given under the heading "Additional information". They would also keep the debtors relating to the section. The debtors owe \$8000. The managers would form a new company. They have made the following offer to the directors of Fodlast plc.

250 000 ordinary shares of \$1 each in the new company at par
\$40 000 6% debenture stock at par
\$110 000 cash

REQUIRED

- (a) Calculate the financial consequences to Fodlast plc of accepting **either** of the **two** options. [9]
- (b) Advise the managers of Fodlast plc which option they should choose. Give your reasons. [5]
- (c) Prepare a balance sheet showing the position of Fodlast plc as it would appear immediately after the implementation of option 1. [14]
- (d) Prepare a balance sheet showing the position of Fodlast plc as it would appear immediately after the implementation of option 2. [12]

[Total: 40]

- 3 Lim Ltd manufactures plastic storage boxes. The materials are purchased as large sheets of plastic ready for pressing into shape.

Actual results for the year ended 31 March 2009 were as follows:

	\$	\$
Sales		190 000
Less variable costs		
Raw materials	89 100	
Direct labour	<u>33 000</u>	<u>122 100</u>
Contribution		<u>67 900</u>

Additional information

- 1 There were no opening or closing stocks of boxes.
- 2 The budget and standard cost details for the year ended 31 March 2009 were:
 - (i) budgeted sales of boxes would be: 24 000 at \$10 each;
 - (ii) each box would require 1.4 m² of plastic at \$3.20 per m²;
 - (iii) each box would require 10 minutes of direct labour time paid at \$8.40 per hour.
- 3 The actual results for the year ended 31 March 2009 showed:
 - (i) 20 000 boxes were made and sold;
 - (ii) 27 000 m² of plastic was used;
 - (iii) 4000 hours of direct labour time were used.

REQUIRED

- (a) Calculate the:
- (i) sales volume variance;
 - (ii) sales price variance;
 - (iii) total sales variance;
 - (iv) raw materials usage variance;
 - (v) raw materials price variance;
 - (vi) total raw materials variance;
 - (vii) direct labour efficiency variance;
 - (viii) direct labour rate variance;
 - (ix) total direct labour variance.

[18]

(b) Using the original budgeted figures, prepare a statement showing the budgeted contribution. [10]

(c) Explain **one** reason why the following variances calculated in (a) might have arisen:

(i) sales volume variance;

(ii) raw materials price variance;

(iii) direct labour rate variance. [6]

(d) Explain how a raw materials usage variance might be connected to a direct labour efficiency variance. [6]

[Total: 40]

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