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

ACCOUNTING **9706/42**

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

2 hours

Additional Materials: Answer Booklet/Paper

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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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UNIVERSITY of CAMBRIDGE
International Examinations

[Turn over

1 The balance sheet of Drakar Ltd at 31 March 2009 was as follows:

	$	$
Fixed assets		790 000
Current assets		
Stocks	38 000	
Debtors	68 000	
	106 000	
Creditors: amounts falling due in less than one year		
Creditors	31 000	
Bank overdraft	21 000	
	52 000	
Net current assets		54 000
		844 000
Creditors: amounts falling due in more than one year		
8% debentures (2026)		(120 000)
Net assets		724 000
Share capital and reserves		
Ordinary shares of $1 each fully paid		500 000
Retained profit		224 000
		724 000

Drakar Ltd acquired the partnership of Aamer and Bjorn before the start of business on 1 April 2009. The partners shared profits and losses in the ratio of 3 : 2 respectively.

The purchase consideration was $150 000 made up as follows:

50 000 ordinary shares of $1 each in Drakar Ltd
$20 000 in 8% debentures at par
$10 000 in cash.

The shares in Drakar Ltd were distributed in profit sharing ratios. The debentures were shared equally between the partners.

The balance sheet of Aamer and Bjorn at 1 April 2009 was:

	$	$
Fixed assets		
Goodwill	37 000	
Fixtures and fittings	50 000	87 000
Current assets		
Stocks	20 000	
Debtors	17 000	
Bank balance	8 000	
	45 000	
Current liabilities		
Creditors	12 000	33 000
		120 000
Capital accounts		
Aamer		70 000
Bjorn		50 000
		120 000

Drakar Ltd took over the assets at the following valuations:

Fixtures and fittings	$40 000
Stock	$18 000
Debtors	at book value

The company also took responsibility for the settlement of the creditors of Aamer and Bjorn.

Aamer and Bjorn retained the bank balance.

REQUIRED

(a) Prepare capital accounts to show the entries necessary to close the books of account of Aamer and Bjorn. [12]

In order to finance the acquisition of the partnership and plans for future expansion a rights issue of 1 new ordinary share for every five held was made to the original shareholders of Drakar Ltd at a price of $2.50 per share. The issue was completed successfully on 31 March 2009. The issue expenses amounted to $30 000.

REQUIRED

(b) Prepare the balance sheet of Drakar Ltd as it appeared before the start of business on 1 April 2009 after the rights issue and the acquisition of the partnership of Aamer and Bjorn. [23]

(c) Explain **two** advantages that a company hopes to gain by using a rights issue to raise additional capital. [5]

[Total: 40]

2 The balance sheets at 31 March 2009 and 2008 for Hillman-Worraker Ltd are shown below:

	2009		2008	
	$000	$000	$000	$000
Fixed assets **Note 1**		3150		2627
Current assets				
Stock	470		400	
Trade debtors	280		200	
Bank balance	190		-	
	940		600	
Creditors: amounts falling due in less than one year				
Trade creditors	135		130	
Taxation	30		50	
Bank overdraft	-		48	
	165		228	
Net current assets		775		372
Total assets less current liabilities		3925		2999
Creditors: amounts falling due in more than one year				
8% debenture stock **Note 2**		200		300
Net assets		3725		2699
Share capital and reserves				
Ordinary share capital of $1 each fully paid **(Note 3)**		1500		1000
Share premium account		660		500
Revaluation reserve		300		-
Retained profit		1265		1199
		3725		2699

Other information

Extract from the profit and loss account for the year ended 31 March 2009

	$000
Operating profit	156
Interest paid	(28)
Profit before tax	128
Tax	(30)
Profit after tax	98
Interim dividend paid	(32)
Retained profit for the year	66

Note 1

	2009	2008
Fixed assets		
Land	$000	$000
Cost	1200	1200
Revaluation	300	-
	1500	1200

There were no additions to or disposals of land during the year ended 31 March 2009.

	2009	2008
Buildings	\$000	\$000
Cost at 1 April	900	900
Additions	400	-
Disposals	(240)	-
Accumulated depreciation	(245)	(243)
Net book value	815	657

During the year ended 31 March 2009 buildings that had originally cost \$240 000 were sold for \$320 000. The depreciation charges on these buildings up to 31 March 2008 was \$21 000. Additional buildings were purchased for \$400 000.

Plant and machinery	\$000	\$000
Cost at 1 April	850	850
Additions	250	-
Accumulated depreciation	(450)	(340)
Net book value	650	510

There were no disposals of plant and machinery during the year ended 31 March 2009.

Vehicles	\$000	\$000
Cost at 1 April	500	500
Additions	150	-
Disposals	(75)	-
Accumulated depreciation	(390)	(240)
Net book value	185	260

During the year ended 31 March 2009 vehicles that had originally cost \$75 000 were sold for \$12 000, a loss of \$5000. Additional vehicles were purchased for \$150 000.

Note 2

\$100 000 debentures were redeemed on 30 September 2008.

Note 3

A bonus issue of one ordinary share for every five held was made in July 2008. The share premium account was used for this purpose.

A rights issue of 1 ordinary share for every four held at a premium of \$1.20 per share was made in January 2009.

Note 4

Interim dividends paid for the year ended 31 March 2009 were \$32 000. No final dividend was proposed.

REQUIRED

(a) Prepare a statement to show the reconciliation of operating profit to net cash flow from operating activities for the year ended 31 March 2009. [16]

(b) Prepare a cash flow statement for the year ended 31 March 2009 in accordance with the requirements of FRS1. [19]

(c) Prepare a reconciliation of net cash to movement in net debt. [5]

[Total: 40]

3 R J P Ltd manufactures two food products Yadtels and Zretals. Both products pass through process 1. Yadtels then pass through process 2 while Zretals pass through process 3.

Before the start of each process there is some wastage. During each process some of the product is spoiled and can only be sold as base for animal feed at $0.60 per kilo.

The cost accountant provides the following information for the month of May.

Process 1

Raw materials used	100 000 kilos
Price of raw materials	$1.30 per kilo
Direct labour per kilo processed	30 minutes at $4 per hour
Variable overheads per labour hour	$1.20
Wastage	8000 kilos
Spoiled production	2000 kilos

The total fixed costs for May were $28 000 and are apportioned in the ratio of the floor area occupied by each process. Process 1 occupies 2000m^2 of the total floor area. Process 2 occupies 3000m^2 and process 3 occupies 2000m^2.

50% of the finished product from process 1 is transferred to process 2.

40% of the finished product from process 1 is transferred to process 3.

10% of the finished product from process 1 is sold to the general public through the company sales outlet.

There was no opening or closing work in progress.

REQUIRED

(a) Prepare an account for process 1. [8]

(b) Calculate the cost of **one** completed kilo of production in process 1. [1]

The costs involved in processes 2 and 3 were:

	Process 2	Process 3
Direct labour per kilo processed	15 minutes at $6 per hour	20 minutes at $3.90 per hour
Variable overheads per labour hour	$0.50	$0.60
Wastage	1000 kilos	500 kilos
Spoiled production	625 kilos	330 kilos

There was no opening or closing work in progress in process 2.

There was no opening work in progress in process 3. Closing work in progress in process 3 was 1000 kilos which was 30% complete as to labour.

REQUIRED

(c) Prepare accounts for process 2 and 3 (work to nearest $). [28]

(d) Calculate the cost of **one** completed kilo for processes 2 **and** 3. [2]

(e) Businesses other than food processing may generate by-products. Give **one** example of such a business and name its by-product. [1]

[Total: 40]