UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2011**

2 hours

Additional Materials: Answer Booklet/Paper

7016691431

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 **6** printed pages and **2** blank pages.

DC (AC) 32918/2

UNIVERSITY of CAMBRIDGE International Examinations

1 Alan, Brian and Clive have been in partnership for several years sharing profits in the ratio 3: 2: 1, after charging an annual salary for Alan of $18 000 and interest on capital of 6% per annum.

Financial statements are prepared to 30 June.

Additional information:

1 The capital account balances on 1 July 2010 were:

	$
Alan	42 500
Brian	32 000
Clive	28 000

2 Alan retired on 31 December 2010. Dilip was admitted to the partnership on this date.

3 Dilip introduced fixed capital of $50 000. Brian also contributed a further $50 000 fixed capital.

4 It was decided that the profit sharing ratio for Brian, Clive and Dilip would be 2: 1: 1 after charging an annual salary for Dilip of $10 000 and interest on capital of 6% per annum.

5 The following adjustments were made on 31 December 2010:

Goodwill was valued at $132 000 for the purposes of the change in partnership and the following revaluations were made:

	NBV $	Revalued amount $
Non-current Assets	350 000	300 000
Trade Receivables	242 000	216 000
Trade Payables	83 000	73 000

Goodwill is not to be retained in the books of account.

6 Any balance on Alan's capital account on the date of retirement is to be transferred to his current account.

REQUIRED

(a) Prepare partners' capital accounts in columnar form for the year ended 30 June 2011. [13]

The current account balances on 1 July 2010 were:

	$	
Alan	16 852	Cr
Brian	7 482	Dr
Clive	11 743	Cr

The partners made drawings in their profit sharing ratios.

The total drawings were:

$30 000 on 31 December 2010 (immediately prior to the partnership change)
$20 000 on 30 June 2011

The net profit for the year ended 30 June 2011 was $48 000 and this accrued evenly throughout the year.

Any final balance owed to Alan is to be paid through the bank account.

REQUIRED:

(b) Prepare an appropriation account for the year ended 30 June 2011. [14]

(c) Prepare partners' current accounts in columnar form for the year ended 30 June 2011. [9]

(d) Identify **two** possible advantages and **two** possible disadvantages to Brian and Clive of admitting Dilip to the partnership on the retirement of Alan. [4]

[Total: 40]

2 The following information is available for Phoenicia Ltd for the year ended 30 June 2011.

Inventories at 1 July 2010	$28 000
Inventories at 30 June 2011	$34 000
Rate of inventory turnover	8 times
Gross profit percentage	35%
Net profit percentage	12%
Income gearing	40%

Administrative expenses were twice as much as distribution costs.

The share capital consists of 250 000 ordinary shares of $0.50 nominal value.

Dividends paid during the year were $0.05 per share.

The directors are not required to implement the IAS regulations because Phoenicia Ltd is a private limited company.

REQUIRED

(a) Prepare an income statement (profit and loss account) and appropriation account, in as much detail as possible, for the year ended 30 June 2011. [20]

The directors of Phoenicia Ltd have decided to invest in **either** Algebra plc **or** Vector plc.

Financial information for these two companies is shown below:

For the year ended 30 June 2011

	Algebra plc $000	Vector plc $000
Profit from operations	100	200
Finance charges	(40)	(70)
Profit for the year	60	130
Preference dividend	(8)	(40)
Ordinary dividend	(20)	(10)
Retained profit for the year	32	80

At 30 June 2011

	Algebra plc $000		Vector plc $000
Non-current assets	850	Non-current assets	1 450
Net current assets	80	Net current assets	130
2020 8% Debentures	500	2016 10% Debentures	700
	430		880
Ordinary shares of $1	100	Ordinary shares of $1	100
8% $1 Preference shares	100	8% $1 Preference shares	500
Retained profit	230	Retained profit	280
	430		880

The market value of one ordinary share at 30 June 2011 in each company was:

Algebra plc	$2.50
Vector plc	$3.25

REQUIRED:

(b) For each company calculate the following ratios giving your answer to **two** decimal places.

(i) Gearing ratio

(ii) Earnings per share

(iii) Price earnings ratio

(iv) Dividend cover

(v) Dividend per share

(vi) Dividend yield [12]

(c) Based on these calculations advise the directors of Phoenicia Ltd whether they should invest in either Algebra plc or Vector plc. Give reasons for your decision. [8]

[Total: 40]

3 Jardiniere Ltd manufactures three types of garden chairs, Alpha, Beta and Gamma, using the same raw materials. The budget for November and December 2011 showed the following details per unit.

	Alpha	Beta	Gamma
	$	$	$
Selling price	58	52	47
Direct labour	12	15	9
Direct materials	21	21	14
Variable overheads	12	10	10
Fixed overheads	3	2	3

REQUIRED

(a) Calculate the contribution per unit of **each** variety of chair. [8]

(b) Jardiniere Ltd manufactures 10 000 units of **each** type of chair per month.

Prepare a profit statement which shows the budgeted profit for November. [8]

The cost of material is $7 per kilo.

Due to festivals and holidays in December only 70% of the total material required will be delivered.

REQUIRED

(c) Prepare a statement which shows the optimum production plan and maximum profit achievable as a result of the material shortage in December. [14]

(d) The company has a contract to supply 5000 of **each** type of chair to a major customer. Calculate the loss in total profit for December as a result of satisfying this contract. [10]

[Total: 40]

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