



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS  
General Certificate of Education Advanced Level

**ACCOUNTING**

**9706/42**

Paper 4 Problem Solving (Supplementary Topics)

**October/November 2013**

**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.

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.



- 1 Alvin, Bertram and Chana are in partnership preparing accounts to 30 June. They share profits and losses in the ratio 4:3:1. On 30 June 2013, the partners decided to convert the business to a new limited company, Albech Ltd.

Statement of Financial Position at 30 June 2013

		\$	\$
<b>Assets</b>			
Non-current assets (NBV)			250 000
Current assets			
Inventories		89 345	
Trade receivables		53 485	
Cash and cash equivalents		<u>9 250</u>	
			<u>152 080</u>
Total assets			<u>402 080</u>
<b>Equity</b>			
		\$	\$
Capital account	Alvin	75 000	
	Bertram	90 000	
	Chana	<u>60 000</u>	
			225 000
Current account	Alvin	24 840	
	Bertram	44 950	
	Chana	<u>18 555</u>	
			<u>88 345</u>
Total equity			313 345
<b>Liabilities</b>			
Non-current liabilities			
Alvin 8% loan account		40 000	
Current liabilities			
Trade payables		<u>48 735</u>	
Total liabilities			<u>88 735</u>
Total equity and liabilities			<u>402 080</u>

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The terms of the transfer were as follows:

- 1 The agreed valuation of the business was \$475 000.
- 2 Consideration was to be satisfied as follows.
  - 200 000 ordinary shares of \$1 each.
  - 200 000 8% non-redeemable preference shares of \$0.50 each.
  - Sufficient 10% long term debentures to enable Alvin to receive the same amount of annual interest he currently receives on his loan.
  - The balance to be cash in the form of a long term bank loan.
- 3 The ordinary shares and cash were allocated in the profit sharing ratio whilst the preference shares were allocated in the ratio of the capital account balances at 30 June 2013.
- 4 All assets and liabilities were transferred to the new company with the exception of trade receivables, trade payables and the cash and cash equivalents.
- 5 A bad debt of \$720 was written off.
- 6 Discounts of \$3060 were agreed with the suppliers.
- 7 All other assets were transferred at their book value.
- 8 The loan from Alvin was repaid to him.

#### REQUIRED

- |   |      |
|---|------|
| (a) Prepare the partnership realisation account.                                      | [8]  |
| (b) Prepare the bank account.   | [8]  |
| (c) Prepare the partners' capital accounts to close the partnership.                  | [8]  |
| (d) Prepare the opening statement of financial position of Albech Ltd at 1 July 2013. | [10] |

**[Total: 34]**



- 2 Swiftsure plc has provided the following financial information for the year ended 31 March 2013.

Income Statement for the year ended 31 March

	2013	2012
	\$000	\$000
Revenue	756	942
Cost of sales	<u>(454)</u>	<u>(528)</u>
Gross profit	302	414
Distribution costs	(126)	(130)
Administrative expenses	(200)	(165)
Profit/(Loss) from operations	<u>(24)</u>	<u>119</u>
Income from investments	5	4
Finance costs	<u>(12)</u>	<u>(12)</u>
Profit/(Loss) before tax	<u>(31)</u>	<u>111</u>
Tax	0	<u>(25)</u>
Profit/(Loss) for the year attributable to equity holders	<u>(31)</u>	<u>86</u>

Statement of changes in equity for the year ended 31 March

	2013	2012
	\$000	\$000
Retained earnings		
Balance at start of year	110	70
Profit/(Loss) for the year	(31)	86
Dividends paid	<u>(49)</u>	<u>(46)</u>
Balance at end of year	<u>30</u>	<u>110</u>

## Statements of Financial Position at 31 March

	2013 \$000	2012 \$000
<b>Assets</b>		
Non-current assets		
Property plant and equipment	274	217
Goodwill	90	90
Investments	<u>75</u>	<u>75</u>
	<u>439</u>	<u>382</u>
Current assets		
Inventories	74	54
Trade and other receivables	95	65
Cash and cash equivalents	<u>-</u>	<u>76</u>
	<u>169</u>	<u>195</u>
Total assets	<u>608</u>	<u>577</u>
<b>Equity</b>		
Ordinary shares	180	120
Non-redeemable preference shares	100	80
Share premium	30	-
Retained earnings	<u>30</u>	<u>110</u>
Total equity	<u>340</u>	<u>310</u>
<b>Liabilities</b>		
Non-current liabilities		
6% debentures	150	200
Current liabilities		
Trade and other payables	57	42
Current tax liabilities	-	25
Bank overdraft	<u>61</u>	<u>-</u>
	<u>118</u>	<u>67</u>
Total liabilities	<u>268</u>	<u>267</u>
Total equity and liabilities	<u>608</u>	<u>577</u>

## Note to the statement of financial position at 31 March 2013

	Buildings \$000	Plant & equipment \$000	Motor vehicles \$000	Total \$000
<b>Cost</b>				
Balance at 1 April 2012	240	110	24	374
Purchases	80	68	12	160
Disposals	-	(20)	-	(20)
Balance at 31 March 2013	<u>320</u>	<u>158</u>	<u>36</u>	<u>514</u>
<b>Depreciation</b>				
Balance at 1 April 2012	87	62	8	157
Disposals	-	(12)	-	(12)
Charge for the year	<u>55</u>	<u>28</u>	<u>12</u>	<u>95</u>
Balance at 31 March 2013	<u>142</u>	<u>78</u>	<u>20</u>	<u>240</u>
<b>Net book value</b>				
Balance at 31 March 2013	<u>178</u>	<u>80</u>	<u>16</u>	<u>274</u>
Balance at 31 March 2012	<u>153</u>	<u>48</u>	<u>16</u>	<u>217</u>

During the year plant and equipment was sold for \$5000.

## Additional information

- \$50 000 of the 6% debentures were redeemed at par on 31 March 2013.
- 20 000 additional \$1 non-redeemable preference shares were issued at par on 1 October 2012. Preference dividends of \$4000 were paid during the year.
- A rights issue of 1 new ordinary \$1 share for every 2 held at a premium of \$0.50 was made on 1 January 2013. No new shares had been issued in the year ended 31 March 2012.
- A final dividend on the ordinary shares of \$0.30 per share was paid on 30 June 2012 and an interim dividend of \$0.05 per share was paid on 31 March 2013.

**REQUIRED**

- (a) Prepare a statement of cash flows for the year ended 31 March 2013 in accordance with IAS 7. [28]
- (b) (i) Explain the difference between a cash budget and a statement of cash flows. [4]
- (ii) State **two** purposes for which Swiftsure plc would use a statement of cash flows. [4]
- (c) Explain the term 'impairment of non-current assets' with reference to IAS 36. [4]

**[Total: 40]**

- 3 Sanghera Manufacturing plc produces office desks in two versions, standard and superior. The following information is available.

Per unit	Standard	Superior
Direct materials	5 kilos at \$4.60 per kilo	6 kilos at \$6 per kilo
Direct labour	3 hours at \$8 an hour	3 hours at \$9 an hour
Other variable costs	\$10	\$14
Selling price	\$79	\$103
Maximum demand per month	4000 units	3000 units

Total fixed costs for a month are \$130 000.

#### REQUIRED

- (a) Prepare a marginal costing statement showing the maximum monthly profit which can be achieved. [6]

In recent months only 33 800 kilos of raw materials have been available for purchase.

#### REQUIRED

- (b) Calculate the maximum monthly profit which can be achieved when there is a shortage of raw material. [11]

The directors of Sanghera Manufacturing plc are considering investing in new machinery which would reduce wastage of raw materials. If the new machinery is purchased the usage of raw materials would be reduced by 9%.

Annual depreciation on the new machinery would be \$12 000 higher than that on the old machinery.

The additional funds required to finance the purchase of the new machinery could be used elsewhere to bring in an income of \$24 000 a year.

The use of the new machinery would cause other variable costs to rise to \$12 per unit for the standard model and \$15.50 for the superior model.

#### REQUIRED

- (c) Calculate the maximum monthly profit which could be achieved with the new machinery, assuming that the shortage of raw material continues. [13]
- (d) Advise the directors whether they should proceed with the purchase of the new machinery. [2]

The directors of Sanghera Manufacturing plc wish to raise additional finance for investment purposes.

#### REQUIRED

- (e) (i) Identify **two** possible sources of finance the directors could use. [2]
- (ii) Explain **one** advantage and **one** disadvantage of each method you have chosen. [6]

[Total: 40]