Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2015**

2 hours

No Additional Materials are required.

* 1 5 6 0 4 2 4 4 8 3 *

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **8** printed pages and **1** insert.

CAMBRIDGE
International Examinations

[Turn over

1 The directors of Plantin plc have produced the following.

Plantin plc
Statement of Financial Position at 1 April 2014

	$ Cost	$ Depreciation	$ Net book value
Non-current assets			
Tangible			
Property, plant and equipment			
Land and buildings	260 000	90 000	170 000
Plant and equipment	152 000	87 000	65 000
	412 000	177 000	235 000
Investments			55 000
			290 000
Intangible			
Goodwill			80 000
			370 000
Current assets			
Inventories			45 000
Trade and other receivables			56 000
			101 000
Total assets			471 000
Equity			
Ordinary share capital ($1 shares)			100 000
5% Non-redeemable $1 preference shares			80 000
Retained earnings			110 000
			290 000
Non-current liabilities			
5% debentures			100 000
Current liabilities			
Trade and other payables			24 000
Taxation			40 000
Cash and cash equivalents			17 000
			81 000
Total equity and liabilities			471 000

The following information is also available for the following year.

Extract from Income Statement for the year ended 31 March 2015

	$
Profit from operations	74 000
Income from investments	5 000
Finance costs	(12 000)
Profit before taxation	67 000
Taxation	(15 000)
Profit for the year	52 000

Statement of cash flows for the year ended 31 March 2015

	$	$
Operating activities		
Profit from operations		74 000
Depreciation - buildings		28 000
- plant and equipment		33 000
Impairment of goodwill		20 000
Increase in inventories		(30 000)
Increase in trade receivables		(40 000)
Increase in trade payables		30 000
Cash from operations		115 000
Interest paid		(12 000)
Tax paid		(40 000)
Net cash flow from operations		63 000
Investing activities		
Purchase of non-current assets		
- buildings	(80 000)	
- plant and equipment	(80 000)	
Income from investments	5 000	
		(155 000)
Financing activities		
Redemption of debentures	(50 000)	
Proceeds of issue of non-redeemable preference shares	20 000	
Proceeds of issue of 50 000 ordinary shares	80 000	
Dividends paid (preference)	(4 000)	
		46 000
Net decrease in cash and cash equivalents		(46 000)
Cash and cash equivalents at 1 April 2014		(17 000)
Cash and cash equivalents at 31 March 2015		(63 000)

REQUIRED

(a) Prepare an extract from the statement of changes in equity for the year ended 31 March 2015 showing the retained earnings column. [4]

(b) Prepare the property, plant and equipment section of the non-current assets note to the statement of financial position at 31 March 2015. [7]

(c) Prepare Plantin plc's statement of financial position at 31 March 2015.
(Comparatives are not required.) [21]

Additional information

The directors of Plantin plc have recently discovered a material error in the published financial statements for the year ended 31 March 2014. It was discovered that sales of $30 000, which had never taken place, had been included in revenue and in trade receivables.

REQUIRED

(d) **(i)** State how this error has affected the financial statements for the year ended 31 March 2014. [4]

(ii) Explain how the directors of Plantin plc should deal with this error in its financial statements in accordance with IAS 8. [4]

[Total: 40]

2 Abdul, Barry and Chandra are in partnership sharing profits and losses in the ratio 3:2:1. No current accounts are maintained.

The following information is available.

Statement of Financial Position at 30 April 2015

	$
Assets	
Non-current assets	
Property	500 000
Equipment	132 000
Vehicles	150 000
	782 000
Current assets	
Inventories	38 000
Trade receivables	1 000
Cash and cash equivalents	66 000
	105 000
Total assets	887 000
Capital	
Abdul	441 000
Barry	294 000
Chandra	147 000
	882 000
Liabilities	
Current liabilities	
Trade payables	5 000
Total capital and liabilities	887 000

Chandra decided to retire at the close of business on 30 April 2015 and the following was agreed:

1 Goodwill was valued at $180 000 and was not to be retained in the books.

2 Chandra was to be paid $60 000 from the business bank account.

3 Any money still due to Chandra will be treated as a long-term loan to the new partnership of Abdul and Barry.

4 Abdul and Barry will continue to trade and will share profits and losses in the ratio 3:2.

REQUIRED

(a) Prepare the partners' capital accounts at 30 April 2015. [10]

(b) Prepare the opening statement of financial position of the new partnership of Abdul and Barry at 1 May 2015. [5]

Additional information

Chandra wishes to invest the $60 000 which he received from the partnership. He is considering acquiring a debenture **or** convertible loan stock.

REQUIRED

(c) Explain what is meant by a debenture and convertible loan stock highlighting the major difference between them. [5]

Additional information

Alternatively, Chandra is considering investing in ordinary shares. He has obtained the summarised financial statements of two companies, Richards Limited and Sobers Limited.

The following data is available.

	Richards Limited	Sobers Limited
	$	$
Income Statements		
Gross profit	85 000	65 000
Profit from operations	66 000	48 000
Finance charges	(6 000)	(8 000)
Profit before tax	60 000	40 000
Tax	(30 000)	(20 000)
Profit after tax	30 000	20 000
Statements of Financial Position		
Total assets	500 000	400 000
Equity		
$1 ordinary shares	150 000	100 000
Share premium	15 000	20 000
Retained earnings	105 000	85 000
	270 000	205 000
Non-current liabilities		
8% debentures (2022)	75 000	100 000
Current liabilities	155 000	95 000
Total equity and liabilities	500 000	400 000

Both companies have non-current assets equal in value to their current assets.
The market value of an ordinary share in Richards Limited is $1.80.
The market value of an ordinary share in Sobers Limited is $2.40.
Neither company has paid any dividends during the year.
Richards Limited proposes a final dividend of $0.06 per ordinary share and Sobers Limited $0.09 per ordinary share.

REQUIRED

(d) Calculate the following ratios for **both** companies.

(i) Current ratio
(ii) Return on capital employed
(iii) Gearing ratio
(iv) Income gearing
(v) Earnings per share
(vi) Price earnings ratio
(vii) Dividend yield. [14]

(e) Advise Chandra which company he should invest in. Base your answer on your calculations for the return on capital employed, gearing ratio and income gearing **only.** [6]

[Total: 40]

3 In March 2015 Abel-Mwai Limited received an order to produce some mechanical components. These needed to pass through three processes.

Following information about the three processes was available.

	Process 1	Process 2	Process 3
Direct materials per unit	4 kilos at $6 per kilo	2 kilos at $5 per kilo	1 kilo at $3 per kilo
Direct labour per unit	2 hours at $10 per hour	2 hours at $12 per hour	3 hours at $14 per hour
Variable overheads per unit	$2 per direct labour hour	$2 per direct labour hour	$2 per direct labour hour
Fixed overheads per completed unit	$9	$6	$4
Rate of normal loss sold as scrap	None	10%	None
Scrap value per unit	Not applicable	$50	Not applicable
Work-in-progress maintained	No	No	Yes

At the end of Process 1 production was transferred to Process 2 with a value of $684 000.

REQUIRED

(a) Calculate

(i) the cost per unit at the end of Process 1 [1]

(ii) the number of units transferred from Process 1 to Process 2 [3]

(b) Prepare

(i) the Process 1 account [5]

(ii) the Process 2 account [8]

(c) Calculate

(i) the number of units transferred from Process 2 to Process 3 [2]

(ii) the cost per unit at the end of Process 2, to **two** decimal places [2]

Additional information

It has been discovered that if a higher grade of materials costing $8 per kilo had been used in Process 2, the rate of normal loss would have been reduced by 50%.

REQUIRED

(d) Calculate a revised cost per unit at the end of Process 2 assuming the higher grade materials had been used. Advise management whether these materials should have been bought. [9]

Additional information

On 30 April 2015, at the end of Process 3 there were 3000 units 75% complete as to direct materials and 25% complete as to direct labour.

REQUIRED

(e) Calculate the value of the work-in-progress at 30 April 2015. [5]

Additional information

The accountant has been asked to prepare a costing report on the order at 30 April 2015.

REQUIRED

(f) Advise the accountant what items might be included in his report. [5]

[Total: 40]