Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2014**

2 hours

No Additional Materials are required.

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

1 The following extract from the income statement has been prepared for Asteroid pl[illegible]r ended 30 June 2014.

	$000
Revenue	11 735
Cost of sales	(5 872)
Gross profit	5 863
Dividends received	750
Gain on disposal of non-current asset	395
Distribution costs	(2 138)
Administrative expenses	(1 574)
Profit from operations	3 296

On 1 May 2014 the directors issued $5 625 000 8% debentures redeemable in 2022.

The estimated tax liability for the year was $782 000.

REQUIRED

(a) Calculate the finance costs which would be entered in the income statement. [3]

(b) Calculate the profit before taxation and profit attributable to equity holders. [2]

Additional information

The last two statements of financial position were as follows:

Statement of financial position at 30 June

	2014 $000	2013 $000
Assets		
Non-current assets		
Property, plant and equipment (net book value)	19 735	10 509
	19 735	10 509
Current assets		
Inventories	2 048	1 659
Trade receivables	1 562	1 158
Cash and cash equivalents	454	
	4 064	2 817
Total assets	23 799	13 326
Equity and Liabilities		
Equity		
Ordinary share capital ($1)	4 000	3 000
Share premium	2 000	1 500
Retained earnings	9 627	7 338
Total equity	15 627	11 838
Non-current liabilities		
8% Debentures (2022)	5 625	-
Current liabilities		
Trade payables	1 735	796
Taxation	812	609
Bank overdraft		83
	2 547	1 488
Total liabilities	8 172	1 488
Total equity and liabilities	23 799	13 326

Other information is as follows:

1 During the year the company paid total dividends of $150 000.

2 During the year property, plant and equipment costing $840 000 was sold. The accumulated depreciation on this property, plant and equipment was $715 000.

3 The total depreciation charge for the year was $2 050 000.

REQUIRED

(c) Prepare a statement to show the net cash from operating activities for the year ended 30 June 2014. [12]

(d) Prepare a statement of cash flows for the year ended 30 June 2014 in accordance with IAS 7. [16]

Additional information

On 18 July 2014 a flood damaged a material amount of inventory.

On 29 July 2014 a company which owed Asteroid plc a material amount went into liquidation.

On 11 August 2014 a dividend of $0.03 per ordinary share was declared.

REQUIRED

(e) State which type of event each occurrence is and say how they would be treated in the accounts for the year ended 30 June 2014. Your answer should be in accordance with IAS 10. [7]

[Total: 40]

2 The financial statements of Seko Limited for the year ended 30 June 2014 were as fo

Income statement for the year ended 30 June 2014

	$000	$000
Revenue		3000
Cost of goods sold		1650
Gross profit		1350
Operating expenses		
Administrative salaries	700	
Heating and lighting	98	
Rent and rates	340	
Depreciation on plant and machinery	60	
Depreciation on motor vehicles	48	
Bad debts	4	
Sundry expenses	72	1322
Profit for the year		28

Statement of financial position at 30 June 2014

	$000	$000
Assets		
Non-current assets		
Plant and machinery	300	
Accumulated provision for depreciation	160	140
Motor vehicles	240	
Accumulated provision for depreciation	150	90
		230
Current assets		
Inventory	120	
Trade receivables	245	
Cash and cash equivalents	86	
		451
Total assets		681
Equity and liabilities		
Equity and reserves		
200 000 ordinary shares of $1 each		200
Retained earnings		286
		486
Current liabilities		
Trade payables		186
Accrued administrative salaries		9
Total liabilities		195
Total equity and liabilities		681

Seko Limited plans to expand its business in the following year and would like t[illegible] a budget for the year ending 30 June 2015.

1 Additional plant and machinery \$220 000 and motor vehicles \$130 000 are to be purch[illegible] on 1 July 2014.

To finance the non-current assets, a 4-year 10% loan \$100 000 and a new issue of 250 000 ordinary shares at \$1 each will be raised on the same day. The first payment of loan interest and capital will be made on 1 July 2015.

2 Sales volume is expected to increase by 60% and the selling price is expected to increase by 10%.

3 Gross profit as a percentage of sales is expected to decrease by 5%.

4 Sales and purchases are expected to be made evenly during the year. All sales and purchases are on credit. The sales credit period will be one month while the purchases credit period will be two months.

5 The closing inventory is expected to be \$180 000 on 30 June 2015.

6 Two salesmen will be employed to strengthen the selling activities. Apart from their total annual salaries of \$123 000, the salesmen will be entitled to:

Commission – 3% of gross sales (payable in July 2015)
Bonus – 5% of the profit for the year after charging the bonus (payable in July 2015)

7 All other expenses are expected to increase by 5% in line with the expected inflation rate.

8 Depreciation on non-current assets held at 30 June 2015 will be charged at 20% on the straight-line basis.

9 No bad debts are anticipated. However, a provision for doubtful debts will be made at 2% of the trade receivables at the year end.

REQUIRED

(a) Prepare the budgeted income statement for the year ending 30 June 2015. [16]

(b) Prepare the budgeted bank account for the year ending 30 June 2015. [8]

(c) Prepare the budgeted statement of financial position at 30 June 2015. [12]

(d) Explain **two** reasons why a business prepares a budget. [4]

[Total: 40]

3 The summarised financial statements of Firgo plc for the year ended 31 December 20 the following.

Income statement for the year ended 31 December 2013

	$000
Revenue	6000
Revenue expenditure excluding depreciation	5600
Depreciation	300

The directors consider that, without expansion plans, these costs and revenues will remain constant in future years.

Statement of financial position at 31 December 2013

	$000
Non-current assets	1700
Current assets	450
	2150
Ordinary shares of $1 each	2000
Retained earnings	(400)
Current liabilities	550
	2150

REQUIRED

(a) State the year in which Firgo plc will next be able to pay a cash dividend. [3]

(b) Explain the scheme which would enable the directors to pay a cash dividend straight away. [5]

Additional information

The directors believe they can improve profitability if they start manufacture of a new product. This would involve the purchase of new machinery costing $400 000 on 31 December 2014. The **total** annual revenue of the company would then be expected to increase to:

	$000
2015	6500
2016	6700
2017	7100
2018	6300

The annual running costs of the new machinery are expected to be:

	$000
2015	300
2016	490
2017	740
2018	610

On 31 December 2018 the machinery would be scrapped. There would be no residua

Firgo plc has a cost of capital of 10%. Discount factors are as follows.

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683

REQUIRED

(c) Calculate the net present value of the machinery. Assume all cash flows arise on the last day of the year. [15]

Additional information

Using a cost of capital of 15% the net present value of the machinery is $ (7830).

REQUIRED

(d) Calculate the internal rate of return. [5]

(e) Calculate the accounting rate of return of the machinery correct to **one** decimal place. [6]

(f) Advise the directors on the proposed purchase of machinery. [6]

[Total: 40]

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