Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING	9706/43
Paper 4 Problem Solving (Supplementary Topics)	October/November 2015
	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 **6** printed pages, **2** blank pages and **1** insert.

[Turn over

1 Pitman plc has been trading for many years. The following balances have been extracted from the books of account at 30 June 2015.

	Dr $	Cr $
Administrative expenses	141 970	
Cash and cash equivalents	650	
Distribution costs	36 120	
Land and buildings		
Cost	135 000	
Provision for depreciation at 1 July 2014		21 840
Fixtures and fittings		
Cost	18 110	
Provision for depreciation at 1 July 2014		5 310
Motor vehicles		
Cost	41 600	
Provision for depreciation at 1 July 2014		19 200
Inventories at 1 July 2014	62 400	
Purchases	268 200	
Retained earnings		30 740
Revenue		563 800
Ordinary share capital ($1 shares)		60 000
Trade payables		80 250
Trade receivables	76 920	
Other payables		870
Other receivables	1 040	

Additional information

1 Inventories were valued at cost $70 300 on 30 June 2015.

2 At 30 June 2015 land and buildings were revalued. Land was valued at $90 000 and buildings at $65 000.

3 Depreciation is to be charged to administrative expenses as follows:

Buildings	2% per annum using the straight-line method
Fixtures and fittings	15% per annum using the reducing balance method
Motor vehicles	25% per annum using the reducing balance method

4 Goods with a cost price of $6000 had been sold on credit at a mark up of 20%. The customer who had purchased these goods has been declared bankrupt and the debt is to be written off. The bad debt is to be charged to administrative expenses.

5 A provision for doubtful debts is to be provided at 2.5% of the closing trade receivables balance. This is to be charged to administrative expenses.

6 On 1 April 2015 the company issued a 5% debenture for $50 000 repayable in 2024. On the same day it also made a fully subscribed rights issue of 1 ordinary share for every 4 ordinary shares held for $1.50 per share. No entries have been made in the books of account in respect of **either** of these items.

7 The taxation charge for the year is $12 650.

REQUIRED

(a) Prepare an income statement for the year ended 30 June 2015 in line with International Accounting Standards. [12]

(b) Prepare the statement of financial position at 30 June 2015 in line with International Accounting Standards. [18]

Additional information

After the financial statements had been prepared it was discovered that an item of fixtures and fittings should have been impaired. The item was bought two years ago for $6000. It could now be sold for $4000 and has a value in use of $3000.

REQUIRED

(c) Explain the term impairment and the treatment of impairment in the financial statements. [4]

(d) Advise the directors as to whether or not the item of fixture and fittings is impaired. Show your workings. [4]

(e) Explain how your advice would differ if the value in use had been $5000. [2]

[Total: 40]

2 Barrington, Cowdrey and Dev have been in partnership for many years sharing profits in the ratio 3:2:1. Accounts are prepared annually to 30 June. Profits had been rising at a compound rate of 6% per annum until 30 June 2014.

The profit for the year ended 30 June 2012 was $40 000.

The following trial balance was extracted from the partnership books of account on 30 June 2015.

	Dr $	Cr $
Capital accounts at 1 July 2014:		
Barrington		54 000
Cowdrey		37 500
Dev		28 000
Current accounts at 1 July 2014:		
Barrington		17 500
Cowdrey		9 500
Dev	2 500	
Non-current assets	170 000	
Inventories	65 000	
Trade receivables	92 450	
Cash and cash equivalents	21 839	
Trade payables		234 727
Drawings:		
Barrington (all on 1 July 2014)	32 000	
Cowdrey (all on 1 October 2014)	30 000	
Dev (all on 1 April 2015)	18 000	
Profit for the year		50 562
	431 789	431 789

The terms of the partnership agreement are as follows.

1 Interest on capital is calculated at 4% per annum on the opening capital balance.

2 Interest is charged on drawings at 6% per annum on the full amount drawn.

3 Dev receives a salary of $6000 per annum.

REQUIRED

(a) Calculate the percentage increase in profit for the year ended 30 June 2015 over the previous year. [4]

(b) Prepare the partnership appropriation account for the year ended 30 June 2015. [6]

(c) Prepare the partners' current accounts for the year ended 30 June 2015. [7]

Additional information

The partners agreed to form a limited company, Edrich Limited, with effect from 1 July 2015.

REQUIRED

(d) State **two** possible advantages to the partners of forming a company. [2]

Additional information

1 Edrich Limited took over the non-current assets and inventories at a valuation of $150 000 and $60 000 respectively.

2 The trade receivables and trade payables were taken over at the existing valuation.

3 Dissolution costs of the partnership amounted to $1500.

4 The purchase consideration paid by Edrich Limited was four times the average profit of the three years ended 30 June 2012, 30 June 2013 and 30 June 2014.

5 The purchase consideration was as follows:

An issue of $100 000 5% debentures (2026) split evenly between the partners.

An issue of 50 000 ordinary shares of $1 each at a premium. The shares were issued to the partners in their profit sharing ratio.

REQUIRED

(e) Prepare the following accounts to close the books of the partnership.

(i) the partnership realisation account [6]

(ii) the partners' capital accounts [6]

(iii) the partnership bank account [3]

(f) Prepare the opening statement of financial position of Edrich Limited at 1 July 2015. [6]

[Total: 40]

3 Ayanda Limited manufactures one product. The company keeps no inventory of raw materials or finished goods.

The following budgeted information for a standard month is provided.

Sales	1000 units at $130 each
Raw materials	600 kilos at $18 per kilo
Production labour	1500 hours at $7.50 per hour
Variable overheads	$28 000
Fixed overheads	$34 000

Variable overheads arise from selling and distribution activities. Fixed overheads include both production and other overheads.

REQUIRED

(a) Prepare the budget for a standard month, showing **total** contribution and profit. [4]

Additional information

Actual results for March were as follows.

Sales	1200 units at $132 each
Raw materials	780 kilos at $14 per kilo
Production labour	2050 hours at $8.50 per hour
Variable overheads	$35 100
Fixed overheads	$34 100

(b) Prepare the flexed budget for March, showing **total** contribution and profit. [6]

(c) Calculate the actual **total** contribution and profit for March. [4]

(d) Prepare a statement reconciling the total of actual direct production costs in **(c)** with the total of direct production costs from the flexed budget in **(b)**. Start your answer with the actual costs. Your answer should involve **four** relevant variances. [12]

Additional information

In March the company bought raw materials which were of a lower quality than usual.

REQUIRED

(e) Explain how the purchase of lower quality raw materials had affected the variances in your reconciliation in **(d)**. [8]

(f) Advise the directors whether this purchase of lower quality materials has benefitted the business. [6]

[Total: 40]

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