UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/42**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2011**

2 hours

Additional Materials: Answer Booklet/Paper

0921435807

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.

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1 The statement of financial position (balance sheet) of Whane plc showed the following:

	At 30 April 2011			At 30 April 2010		
	$000	$000	$000	$000	$000	$000
Intangible non-current assets						
Patents			125			150
Tangible non-current assets			3430			3173
			3555			3323
Current assets						
Inventory		124			106	
Trade receivables		78			82	
Cash and cash equivalents		58			–	
		260			188	
Current liabilities						
Trade payables	63			56		
Taxation	28			24		
Interest	4			14		
Cash and cash equivalents	–			42		
		95			136	
			165			52
			3720			3375
Non-current liabilities						
10% debentures 2028			300			–
			3420			3375
Equity						
Ordinary shares of $1 each			2000			1000
Share premium			250			1000
Revaluation reserve			–			250
Retained earnings			1170			1125
			3420			3375

Further information was available as follows:

1 The income statement for the year ended 30 April 2011 showed interest payable of $32 000 and taxation of $28 000. Dividends paid during the year amounted to $30 000.

2 A bonus issue was made during the year which doubled the number of ordinary shares in issue. An issue of debentures also took place.

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3 At 30 April tangible non-current assets comprised:

	2011 $000	2010 $000
Land at valuation	1600	1600
Buildings		
Cost	1200	1200
Accumulated depreciation	168	144
	1032	1056
Plant and equipment		
Cost	1125	729
Accumulated depreciation	327	212
	798	517

During the year plant which had cost $92 000 was sold for $20 000. Depreciation of $75 000 had been provided on the plant.

4 There were no acquisitions or disposals of patents during the year.

REQUIRED

(a) Calculate, for the year ended 30 April 2011,

(i) the profit for the year attributable to equity holders [3]

(ii) the profit from operations [4]

(b) Prepare a statement of cash flows for the year ended 30 April 2011 [25]

(c) Explain the difference between a rights issue and a bonus issue. [4]

(d) **(i)** Identify the reserves the directors selected to make the bonus issue. [2]

(ii) Explain a reason for their selection. [2]

[Total: 40]

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2 The Top Hat Sports Club is a not-for-profit organisation which runs a gym and operates a café. The treasurer is experienced and for many years has prepared a receipts and payments account.

The club president read a book about the importance of accruals and prepayments. He decided to take the receipts and payments account prepared by the treasurer and to adjust the figures. He produced the following:

Top Hat Sports Club
Income and expenditure account at 31 December 2010

	$	$	$
Opening bank balance			4 320
Annual subscriptions			
received during the year		39 300	
arrears at 1 January 2010		450	
prepaid at 1 January 2010		300	
arrears at 31 December 2010		750	
prepaid at 31 December 2010		150	
			40 950
Café takings			12 260
Depreciation			4 610
			62 140
Rent		12 000	
General expenses		4 620	
Heat, light and power		8 240	
Wages		18 600	
Purchase of equipment		5 300	
Cost of refreshments			
payments during the year	8 140		
owing at 1 January 2010	700		
owing at 31 December 2010	760		
		9 600	
			58 360
Closing bank balance			3 780

Further information is as follows:

1 The club president made depreciation the balancing figure. The treasurer was surprised to see it appear with income.

2 The club president was unaware that there was an unpaid invoice for $910 for heat, light and power at the year end.

3 Asset valuations were:

	1 January 2010	31 December 2010
	$	$
Café inventory	420	800
Equipment	17 200	19 500

4 The club has two members of staff. One was paid $10 600 for the year and worked in the gym and the other earned $8000 and worked in the café.

5 The club has 265 members who each pay an annual subscription of $150.

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On 1 January 2010 the managing committee decided to allow the admission of life members, each paying $1600. This would be transferred to income over 20 years. Three people took up life membership during 2010. The club president omitted life subscriptions from his statement.

REQUIRED

(a) Prepare the corrected income and expenditure account. [9]

(b) Prepare a balance sheet at 31 December 2010. [15]

(c) Explain **three** differences between the financial statements of a not-for-profit organisation and the financial statements of a public limited company. [6]

(d) A public limited company is required to publish a Report of the Directors.

List **five** items which appear in the Report of the Directors. [10]

[Total: 40]

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[Turn over

3 Atwood Ltd makes one product, the Remodil, which goes through two production processes. The following information is available:

Process 1
Each Remodil requires:
4 kilos of raw material costing $4.50 per kilo
2.5 hours of direct labour.

Variable overhead is charged by the direct labour hour.

Fixed overhead is charged per unit.

There is a normal loss of production each month which is sold for $10 a unit.

In April 2011 the ledger account for Process 1 showed the following:

Process 1

	$		$
Direct materials	180 000	Normal loss (scrap)	15 000
Direct labour	150 000	Transfer to Process 2	400 000
Variable overhead	50 000		
Fixed overhead	35 000		
	415 000		415 000

REQUIRED

(a) Calculate for **Process 1**

(i) The total number of units produced in April. [2]

(ii) The direct labour rate per hour. [2]

(iii) The variable overhead charged per labour hour. [2]

(iv) The fixed overhead charged per unit. [2]

(v) The percentage of total production which ends as normal loss. [3]

Further information is as follows:

Process 2
Each Remodil requires the **addition** of
1.5 kilos of raw material costing $4 per kilo
2 hours of direct labour at $5 an hour.

Variable overhead is charged at $2.50 per direct labour hour.

Fixed overhead is charged at $2 per completed unit.

There are no normal or abnormal losses.

At the end of April work in progress consisted of 700 Remodils which were 50% complete as to raw materials and 75% complete as to direct labour. All other units were transferred to finished goods.

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REQUIRED

(b) Calculate

(i) The number of Remodils transferred to finished goods. [3]

(ii) The value of Remodils transferred to finished goods. [11]

(iii) The value of work in progress. [9]

(c) Prepare the ledger account for **Process 2** for April. [6]

[Total: 40]

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