UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2012**

2 hours

Additional Materials: Answer Booklet/Paper

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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.

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1 Swamp Circus plc provides the following information:

Statements of financial position at

	31 March 2012			31 March 2011		
	$000	$000	$000	$000	$000	$000
Non-current assets						
Intangible						
Patents			220			180
Tangible						
Property			2 400			1 700
Equipment			920			610
			3 540			2 490
Current assets						
Inventory		480			509	
Trade receivables		611			569	
Cash and cash equivalents		79			–	
		1 170			1 078	
Current liabilities						
Trade payables	512			501		
Other payables	76			54		
Taxation	220			195		
Cash and cash equivalents	–	808		71	821	
			362			257
			3 902			2 747
Non-current liabilities						
Debentures			500			400
			3 402			2 347
Equity						
Ordinary share capital			1 500			1 200
Revaluation reserve			700			-
General reserve			400			200
Retained earnings			802			947
			3 402			2 347

Income statement for the year ended 31 March 2012

	$000
Profit from operations	636
Finance charges	61
	575
Taxation	220
Profit for the year attributable to equity holders	355

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Additional information:

1 During the year the directors transferred $200 000 to the general reserve and paid dividends of $300 000.

2 At 31 March 2011 equipment had cost $905 000 and was shown after the provision of $295 000 depreciation. At 31 March 2012 equipment had cost $1 240 000 and depreciation of $320 000 had been provided.

3 During the year equipment which had cost $172 000 was sold for $90 000. Depreciation of $101 000 had been provided on it.

4 Other payables include $21 000 unpaid interest at 31 March 2012 and $11 000 unpaid interest at 31 March 2011.

5 During the year an issue of both ordinary shares and debentures had taken place, and the property had been re-valued.

REQUIRED

(a) Prepare a statement of changes in equity for the year ended 31 March 2012. [13]

(b) Prepare a statement of cash flows in accordance with the provisions of IAS 7 for the year ended 31 March 2012. [21]

(c) Describe the treatment of a proposed final dividend in the financial statements. Give the reason for this treatment. [4]

(d) Name **one** item included in a statement of changes in equity which would not appear in a statement of recognised income and expenses. [2]

[Total: 40]

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2 Nursultan, Katia and Avtandil are in partnership sharing profits and losses in the ratio of 3:2:1.

The following balances were available on 31 March 2012:

	$
Capital accounts	
Nursultan	10 000
Katia	20 000
Avtandil	58 000
Current accounts	
Nursultan	5 350 Dr
Katia	6 250
Avtandil	21 100
Property	90 000
Motor vehicle	19 000
Inventories	20 000
Trade receivables	16 800
Trade payables	14 600
Bank overdraft	21 200

On 31 March 2012 the partners dissolved the partnership as follows:

1 Avtandil agreed to take over the motor vehicle at $17 000 and the inventories at $19 120.

2 The property was sold for $80 000.

3 The credit customers paid their accounts after receiving a 5% discount.

4 The credit suppliers agreed to give the partnership a 10% discount because all debts were settled immediately.

5 The cost of dissolution was $5 620.

REQUIRED

(a) Explain how a debit balance may arise on a partner's current account. [2]

(b) State **three** possible reasons why the partners may have decided to dissolve the partnership. [3]

(c) Prepare the partners' capital accounts to record the dissolution of the partnership. Show all workings including the bank account. [29]

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On 1 April 2012 Avtandil set up a new limited company with Damir. Avtandil will bring into the company the inventories and motor vehicle from the dissolved partnership. Damir will invest enough cash so the split of shares between the two is 3:2 to Avtandil and Damir respectively. The issued share capital is to be ordinary shares of $0.50 each.

REQUIRED

(d) Calculate the number of ordinary shares which Avtandil and Damir will each own. [6]

[Total: 40]

3 Aston Manufacturing Company has recently implemented a new standard costing system.

(a) Explain the purpose of standard costing. [4]

Budgeted data for the month of April 2012 was:

Sales and production	5000 units
Materials per unit	8 kilograms
Materials cost per kilogram	$6
Labour per unit	3 hours
Labour cost per hour	$7.50
Overheads per unit	3 hours at $3.50 per hour

The standard selling price gives a standard profit margin of 19%.

REQUIRED

(b) Calculate the standard selling price per unit. [7]

Additional information:

The actual results for April 2012 were:

Production	5300 units
Sales	5100 units
Sales revenue	$522 750
Materials used	43 460 kilograms
Materials cost	$271 625
Labour hours	15 500 hours
Labour cost	$120 125

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REQUIRED

(c) Calculate the following variances, stating clearly whether the variance is adverse or favourable.

(i) Sales price [4]

(ii) Sales volume [2]

(iii) Material price [2]

(iv) Material usage [2]

(v) Labour rate [2]

(vi) Labour efficiency [2]

(d) Suggest a possible reason for **each** of the variances. [6]

Additional information:

During May the company had the opportunity to produce a further three products, Alphas, Betas and Deltas. There were insufficient labour hours to meet the production requirements in full. The details were as follows:

	Alphas	Betas	Deltas
Contribution per unit	$15	$10	$12
Labour hours per unit	5	4	3

The maximum demand for each product is 4000 units and there are 40 000 labour hours available. The associated fixed costs are $75 000.

REQUIRED

(e) Determine the optimum production plan and calculate the associated net profit. [9]

[Total: 40]

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