UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2013**

2 hours

Additional Materials: Answer Booklet/Paper

5658332908

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 **6** printed pages and **2** blank pages.

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1 Adam, Basharat and Chandra have been in partnership for many years. The terms of the partnership agreement are:

Profits and losses are shared by the partners in the ratio of 3:2:1.
Partners receive interest on capital of 8% per annum.
Chandra receives an annual salary of $12 000.

On 1 January 2012 the balances on the partners' capital and current accounts were:

	Capital account	Current account
	$	$
Adam	40 000	7 940
Basharat	27 500	4 675
Chandra	49 000	3 825

On 30 September 2012 Adam retired from the partnership. At that date goodwill was valued at $90 000 and goodwill was not to appear in the books. The partnership assets were also revalued and were found to be $24 000 above their book value.

The terms of the partnership were changed as follows:

1 Profits and losses to be shared equally.
2 Chandra would no longer receive a salary.
3 Basharat would receive an annual salary of $10 000.
4 Interest on capital would be charged at 4% per annum.

Adam agreed to transfer an amount from his capital account to a loan account. He would receive annual interest of $5 000 on the loan. This was equal to an interest rate of 10% per annum on the loan. He drew the remaining balance in cash.

REQUIRED

(a) Prepare the partners' capital accounts for the year ended 31 December 2012. [10]

Additional information

The gross profit for the year ended 31 December 2012 was $250 000. This was earned on an equal basis throughout the year. Expenses accrued evenly throughout the year as follows:

	$
Salaries	110 000
Rent	16 000
Electricity	7 000
Sundry expenses	28 500

No adjustment had been made for the following:

Inventory valued at cost price of $10 000 was found to be severely damaged and had no value.
Rent of $4 000 had been prepaid and an unpaid electricity bill of $1 500 is to be accrued.

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REQUIRED

(b) Prepare the partnership income statement and appropriation account for the 9 month period to 30 September 2012 and the 3 month period to 31 December 2012. [16]

(c) Prepare the partners' current accounts for the year ended 31 December 2012. [8]

Adam is considering investing some of his retirement proceeds in a limited company. He is considering acquiring either participating preference shares or convertible loan stock.

REQUIRED

(d) Explain the terms 'participating preference shares' and 'convertible loan stock'. [6]

[Total: 40]

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[Turn over

2 The financial statements of Manik plc showed the following in respect of non-current assets:

	$000
Cost at 1 January 2012	2000
Less: accumulated depreciation	200
Net book value at 1 January 2012	1800

During the year ended 31 December 2012 the following took place.

New machinery costing $100 000 was purchased. This had been entered in the ledger.

Machinery which had cost $200 000 and had been depreciated by $50 000 was sold. The proceeds of the sale were $145 000 and this had been credited to the suspense account.

No depreciation has been charged on the plant and machinery for the year. Depreciation is charged at 10% on the net book value of plant and machinery at 31 December 2012. The charge is to be included in the Administrative expenses for the year.

REQUIRED

(a) Prepare a statement suitable for inclusion in the published accounts to show the cost, accumulated depreciation and net book value of plant and machinery at 31 December 2012. [8]

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The trainee accountant at Manik plc has provided the following financial information at 31 December 2012.

	$000
Revenue	4000
Cost of sales	1000
Administrative expenses	1700
Distribution costs	450
Suspense account	145
Dividends paid and proposed	135
Inventory	400
Trade receivables	385
Trade payables	120
Cash and cash equivalents	170
Long term loan	300
Ordinary shares of $1 each	1250
Retained earnings at 1 January 2012	265

Additional information

1 No adjustments have been made in respect of distribution costs owing of $20 000 and administrative expenses prepaid of $15 000.

2 Interest on the long-term loan is chargeable at 10% per annum. Only the interest paid during the year of $20 000 has been included in administrative expenses.

3 The estimated tax charge for the year is $365 000.

4 The figure for dividends paid and proposed is made up as follows:

Final dividend for the year ended 31 December 2011 paid in 2012	$50 000
Interim dividend paid 30 September 2012	$25 000
Proposed final dividend to be paid in March 2013	$60 000

5 On 1 December 2012 the company issued a further 500 000 shares of $1 each at $1.50. These shares would qualify for the proposed final dividend to be paid in March 2013.

REQUIRED

(b) Prepare the company's income statement for the year ended 31 December 2012. [11]

(c) Prepare a statement of changes in equity for the year ended 31 December 2012. [10]

(d) Prepare the company's statement of financial position at 31 December 2012. [8]

(e) Explain how proposed dividends are treated in the published accounts. [3]

[Total: 40]

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[Turn over

3 Zeresh Limited provides the following information from its sales budget for 2014.

	Units	Sales price per unit $
January	10 000	20
February	11 000	20
March	11 000	21
April	12 000	21
May	12 000	21
June	14 000	24

Additional information

Inventory of finished goods at each month end is maintained at 20% of the units expected to be sold in the following month.

Each unit requires 0.5 kilos of raw materials, which costs $3 a kilo.

Half a month's inventory of raw materials is maintained, based on the expected usage in the following month.

The total production cost of each unit is $11 and this is the value used for inventory valuation.

REQUIRED

(a) **(i)** Prepare the production budget for each of the five months January to May 2014. [11]

(ii) Prepare the purchases budget for raw materials for each of the four months January to April 2014. Show purchases of raw materials in both kilos and dollars. [9]

(b) Calculate the value of finished goods and raw materials inventory at both 1 January 2014 and 30 April 2014. [4]

(c) **(i)** Prepare a summarised manufacturing account for the four month period ending 30 April 2014. [6]

(ii) Prepare the trading account section of the income statement for the same period. [6]

(d) State **two** advantages and **two** disadvantages to a company of using a budgetary control system. [4]

[Total: 40]

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