UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/42**

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

2 hours

Additional Materials: Answer Booklet/Paper

6247536355

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 Breskens plc has traded at a loss in recent years and no dividends have been paid to shareholders.

The company has provided the following information:

Summary trial balance at 31 March 2013

	Dr $000	Cr $000
Land and buildings	155	
Plant and equipment	510	
Motor vehicles	50	
Goodwill	60	
Investments	130	
Inventories	240	
Trade and other receivables	420	
Trade and other payables		635
Cash and cash equivalents		150
Ordinary share capital ($1 shares)		1 200
Retained earnings at 1 April 2012	350	
Loss for the year	70	
	1985	1985

After the financial statements for the year ended 31 March 2013 had been prepared, an impairment review showed the following:

1 Land and buildings were overvalued by $50 000.

2 Additional depreciation of $80 000 is required on plant and equipment.

3 Goodwill should be written down by $40 000.

4 The carrying value of the investments should be $110 000.

5 Inventory valued at $70 000 is obsolete and has no value.

6 Trade receivables include a bad debt of $40 000.

The directors are confident the company is now trading at a profit. They proposed the following scheme of reconstruction and capital reduction to the shareholders:

Adjustments to the carrying values of the company's assets to be made to take account of the impairment review.

The balance on the retained earnings account at 31 March 2013 to be written off.

Each shareholder to receive one new ordinary share with a reduced nominal value for every $1 ordinary share presently held.

The shareholders agreed to the directors' proposals and the scheme of reconstruction was implemented on 1 April 2013.

The directors are considering which items should be disclosed relating to the scheme of reconstruction in the financial statements for the year ended 31 March 2013 and in the Directors' report for the year.

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REQUIRED

(a) Calculate the value of an ordinary share at 31 March 2013. [4]

(b) Calculate the reduction in the total ordinary share capital of the company when the scheme of reconstruction is implemented. [10]

(c) Prepare the company's statement of financial position at 1 April 2013 immediately after implementing the scheme of reconstruction. [12]

(d) Calculate the nominal value of each of the new shares to be issued on 1 April 2013. [4]

(e) **(i)** Identify **one** adjusting event and **one** non-adjusting event in accordance with IAS 10 (Events after the reporting period) arising from the impairment review. [2]

(ii) State with reasons **two** items which should be disclosed in the financial statements relating to the scheme of reconstruction. [2]

(f) State **three** items which should be disclosed in the Directors' report relating to the scheme of reconstruction. [6]

[Total: 40]

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[Turn over

2 Albert and Basharat have been in partnership for many years sharing profits in the ratio 3:2. Interest on capital was 8%. Accounts are prepared to 30 June.

On 1 April 2012 they admitted Coral to the partnership. On her admission Coral introduced cash totalling $10 000 of which $3000 was in respect of the goodwill taken over by her. The partnership does not maintain goodwill in the books of account.

The new partnership agreement stated:

1 Interest on capital is 10%.

2 Profits are shared by Albert, Basharat and Coral in the ratio of 3:2:1.

3 Albert, Basharat and Coral receive annual salaries of $8000, $6000 and $4000 respectively.

On 30 June 2012 the following balances were provided:

	Debit $	Credit $
Capital accounts at 1 July 2011:		
Albert		45 000
Basharat		20 000
Inventories at 1 July 2011	23 850	
Non-current assets at Cost	25 000	
Accumulated depreciation		12 200
Revenue		340 650
Purchases	265 760	
General expenses	47 590	

Additional information

1 The non-current assets are to be depreciated at 20% per annum using the reducing balance method.

2 Inventories were valued at $27 600 on 30 June 2012. This figure included a group of damaged items which were valued at a cost of $950. These items could normally be sold for $1600 and can now only be sold for $450.

3 There was an accrued general expense of $410 at 30 June 2012.

4 A debt of $1350 was written off in December 2011.

5 Gross profit and general expenses accrue evenly over the year.

REQUIRED

(a) Prepare the partners' capital accounts at 1 April 2012 on the admission of Coral. [9]

(b) Calculate the gross profit for the year ended 30 June 2012. [7]

(c) Prepare an income statement and appropriation account for the nine month period to 31 March 2012 and the three month period to 30 June 2012. [17]

(d) State how the profit would be shared between the partners in the absence of a partnership agreement. [2]

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Prior to becoming a partner, Coral had been an employee in a different business earning an annual salary of $6000. The $10 000 she introduced as capital had previously been invested in a bank deposit account paying 6% per year.

REQUIRED

(e) State whether Coral now has a better income as a partner. Support your answers with calculations. [5]

[Total: 40]

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3 Alfonso Trading Limited provides the following budgeted data for 2014.

	January	February	March	April	May
Budgeted sales (units)	5000	5200	5600	5800	5500
Sales price per unit	$10	$10	$9	$9.50	$10
Purchase price per unit	$4	$4	$4.20	$4.20	$4.20

The following information is also available:

1 The company uses the FIFO method of inventory valuation.

2 The directors aim to maintain inventory levels at 25% of the following month's sales. They expect to achieve this on 31 December 2013 but know it will not be possible every month. The company can buy in a maximum of 5500 units in any one month.

3 All sales are on credit. 50% of customers pay in the month following sales and receive a cash discount of 4%. The remaining customers pay two months after sale.

4 Trade receivables on 1 January 2014 are expected to be:

$24 000 from November's sales
$49 000 from December's sales.

5 Trade payables on 1 January 2014 are expected to total $20 000. The company pays for all its purchases in the month after purchase, receiving a discount of 5% for prompt payment.

REQUIRED

(a) Prepare for **each** of the four months January to April 2014:

(i) Purchases budget. Show purchases for each month in both units and value. [8]

(ii) Trade receivables budget. [14]

(iii) Trade payables budget. [10]

(b) Prepare an extract from the statement of financial position at 30 April 2014 showing current assets and current liabilities. [3]

Additional information relating to April 2014 is as follows:

	$
Budgeted total variable costs	24 900
Budgeted total fixed costs	16 700

REQUIRED

(c) Calculate for April 2014:

(i) the sensitivity of performance to changes in the selling price [2]

(ii) the selling price per unit at which profit would be zero [1]

(iii) the sensitivity of performance to changes in variable cost. [2]

[Total: 40]

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