UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/43**

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

2 hours

Additional Materials: Answer Booklet/Paper

9498740274

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 Kaunus plc was formed on 1 January 2010. On that day the company issued 200 000 ordinary shares of $1.00 each at a premium of $0.25 and issued 150 000 redeemable preference shares of $1.00 at a premium of $0.10. The company also issued $100 000 6% debentures redeemable on 1 January 2013.

The following information is available:

1 The company has been trading profitably and at 1 January 2012 had retained earnings of $80 000.

2 The company made a profit of $140 000 for the year ended 31 December 2012.

3 The net book value of the company's non-current assets at 31 December 2012 was $305 000. Included in this figure was land which had increased in value at 31 December 2012 by $10 000.

4 At 31 December 2012 the company had net current assets made up of cash and cash equivalents of $440 000.

On 1 January 2013 the following transactions were completed:

The 6% debentures were repaid in full at par.

The redeemable preference shares were redeemed at a premium of $0.30 each.

A rights issue of 1 new ordinary $1.00 share for every 2 ordinary shares held at a price of $1.10 per share was fully subscribed.

REQUIRED

(a) Prepare the company's statement of financial position at 1 January 2010 immediately after issuing the shares and debentures. [6]

(b) Prepare a statement showing the movement in the company's cash and cash equivalents on 1 January 2013 after completing the above transactions. [5]

(c) **(i)** Calculate the amount to be shown as a capital redemption reserve in the company's statement of financial position on 1 January 2013. [4]

(ii) Calculate the amount of share premium arising on the rights issue of new ordinary shares on 1 January 2013. [2]

(d) Prepare a statement to show the changes in retained earnings for the period from 1 January 2012 to 1 January 2013 inclusive, after completing the transactions which occurred on that date. [7]

(e) Prepare the company's statement of financial position at 1 January 2013 after completing the above transactions. [12]

(f) Explain for what purposes the following balances may be used:

(i) the share premium account [2]

(ii) the retained earnings. [2]

[Total: 40]

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2 Winston is a sole trader. He provides the following financial information in respect of his business.

Income statement for the year ended 31 December 2012

	$000
Sales	3380
Cost of sales	(2000)
Expenses	(1200)
Profit for the year	180

Statements of financial position at:

	31 December 2011		31 December 2012	
	$000	$000	$000	$000
Non-current assets				
Freehold land		2000		3500
Plant and machinery at cost	900		1020	
Less: depreciation	(500)		(470)	
Net book value		400		550
		2400		4050
Current assets				
Inventory		310		320
Trade receivables		240		210
Cash and cash equivalents		10		-
		560		530
Current liabilities				
Trade payables		200		160
Bank overdraft		-		530
		200		690
Non-current liability – loan		500		350
Net assets		2260		3540

Additional information

1 During the year the land was revalued by a professional valuer.

2 During the year Winston purchased new plant at a cost of $200 000. He also sold some plant that had a net book value of $20 000 and had been depreciated by $60 000. This resulted in a loss on disposal of $2000.

REQUIRED

(a) Calculate Winston's drawings for the year ended 31 December 2012. [4]

(b) Prepare a statement of cash flows for the year ended 31 December 2012. [16]

(c) Explain why Winston has an overdraft at the end of 2012, despite making a profit for the year. [5]

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Winston has been given $250 000 in cash by his uncle. He is considering investing the money and has two options:

1 To invest the money in a bank deposit account which currently pays interest at 3% per annum.

2 To purchase shares in either company A or company B.

He has calculated the following ratios for company B:

Gearing 40%
Interest cover 2 times
Dividend yield 5%

He has obtained the following financial information regarding company A:

Share capital 1 million ordinary shares of $1 each
Total equity $2 625 000
10% debenture $500 000
Profit for the year before tax $200 000
Dividends for the year $150 000
Current market price of the share $4.00

REQUIRED

(d) Calculate the same ratios for company A from the information provided. [9]

(e) Advise Winston how he should invest the $250 000. [6]

[Total: 40]

3 Gladwall Ltd makes one product. Budgeted information is as follows:

Per unit	
Selling price	$55
Direct materials	4 kilos at $5 per kilo
Direct labour	2 hours at $9 per hour

During April 10 000 units were produced and sold. The following variances arose from the production and sales:

	$	
Sales price variance	20 000	favourable
Materials price variance	8 400	favourable
Materials usage variance	10 000	adverse
Labour rate variance	2 050	adverse
Labour efficiency variance	4 500	adverse

REQUIRED

(a) State the formula used to calculate **each** of these **five** variances. [5]

(b) Calculate, for April, the actual:

(i) selling price per unit [2]

(ii) quantity of materials used in total [2]

(iii) material price per kilo [3]

(iv) number of labour hours worked in total [2]

(v) labour rate paid per hour. [3]

(c) Starting with the original total budgeted contribution, calculate the actual total contribution for the month. [7]

(d) For each event listed below identify which variance would be affected and give **one** example of a variance which might arise. State whether the effect would be favourable or adverse.

(i) Theft of raw materials

(ii) Changing suppliers making raw materials more expensive

(iii) Giving sales discounts for bulk buying

(iv) Investment in more reliable machinery

(v) Use of higher grade raw materials

(vi) Decrease in overtime hours. [12]

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IAS 2 defines cost as cost of purchase or cost of conversion.

REQUIRED

(e) Give **two** examples of cost of purchase and **two** examples of cost of conversion. [4]

[Total: 40]

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