UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2010**

2 hours

Additional Materials: Answer Booklet/Paper

5733177862

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. 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 **8** printed pages.

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1 Akram, Bhupesh and Chuck were in partnership. Their partnership agreement provided that:

1 Akram received a partnership salary of $8000 per annum

2 Partners be credited with interest on capital at 6% per annum

3 Residual profits be shared in the ratio 3 : 2 : 1 respectively

4 Chuck be guaranteed a minimum share of residual profits of $7 200.

The partnership trial balance at 31 March 2010, after the preparation of the partnership trading account, was as follows.

	Dr $	Cr $
Gross profit		383 000
Trade receivables (debtors)	24 000	
Trade payables (creditors)		18 000
Inventories (stock) at 31 March 2010	37 000	
Non-current (fixed) assets at cost		
Buildings	310 000	
Machinery	170 000	
Vehicles	120 000	
Provisions for depreciation		
Buildings		105 000
Machinery		68 000
Vehicles		77 000
General expenses	327 000	
Bank		14 000
Capital accounts		
Akram		160 000
Bhupesh		110 000
Chuck		80 000
Current accounts		
Akram		14 000
Bhupesh		27 000
Chuck		37 000
Drawings		
Akram	40 000	
Bhupesh	30 000	
Chuck	35 000	
	1 093 000	1 093 000

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Additional information

1 A family holiday taken by Bhupesh, costing $3400, had been entered in general expenses.

2 A bad debt of $500 was written off during the year. It had not been entered in the books of account.

3 A bad debt of $400 written off in the year ended 31 March 2009 was partially recovered. The debtor paid, by cheque, $0.50 for each $1 owed. No entries had been made in the books of account.

4 A machine purchased in January 2010 for $17 000 had been included in general expenses.

5 Depreciation is to be provided at the following rates:

Buildings at 2% per annum on cost
Machinery at 10% per annum on cost
Vehicles at 40% per annum reducing balance.

A full year's depreciation is provided on non-current (fixed) assets acquired during the year.

REQUIRED

(a) Prepare an income statement (profit and loss account) and an appropriation account for the year ended 31 March 2010. [11]

(b) Prepare the partners' current accounts at 31 March 2010. [6]

At the close of business on 31 March 2010 the partnership was taken over by EDC Ltd. The company took over all the assets and liabilities, with the exception of the bank balance, for a purchase consideration of $600 000.

The purchase consideration comprised:

$30 000 in cash;

150 000 $1 debentures at par shared equally between the partners;

300 000 ordinary shares of $1 in EDC Ltd. These were shared among the partners in their profit sharing ratios.

The partnership expenses incurred in the takeover amounted to $20 200.

REQUIRED

(c) Prepare the partners' capital accounts to close the books of account of the partnership. [16]

(d) Prepare the partnership bank account to close the books of account. [7]

[Total: 40]

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[Turn over

2 The balance sheets at 31 March 2010 and 2009 for Costello plc are shown below:

	2010		**2009**	
	$000	$000	$000	$000
Non-current (fixed) assets (Note 1)		8 080		5 330
Current assets				
Inventories (stock)	948		920	
Trade and other receivables (debtors)	542		522	
Cash and cash equivalents (bank)	–		580	
	1 490		2 022	
Current liabilities (creditors: amounts falling due within one year)				
Trade and other payables (creditors)	(453)		(234)	
Tax	(168)		(306)	
Cash and cash equivalents (bank)	(87)		–	
	(708)		(540)	
Net current assets		782		1 482
Total assets less current liabilities		8 862		6 812
Non-current liabilities (creditors: amounts falling due after more than one year)				
7% debentures **(Note 2)**		(360)		(500)
Net assets		8 502		6 312
Equity				
Ordinary shares of $1 each fully paid **(Note 3)**		3 000		2 000
Share premium account		1 000		–
Retained earnings		4 502		4 312
		8 502		6 312

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The following information is available for the year ended 31 March 2010:

	$000
Profit from operations (operating profit)	393
Finance costs (interest paid)	(30)
	363
Tax	(168)
	195
Dividends paid	(5)
Retained profit for the year	190

Note 1

Non-current (fixed) assets

	2010	**2009**
Land	$000	$000
Cost	2550	2550
Additions	450	–
Revaluation	500	–
Book value	3500	2550

There were no disposals of land during the year.

Buildings	$000	$000
Cost	1530	1530
Additions	1350	–
Accumulated depreciation	(900)	(430)
Net book value	1980	1100

There were no disposals of buildings during the year.

Plant and machinery	$000	$000
Cost	1600	1600
Additions	620	–
Disposals	(130)	–
Accumulated depreciation	(810)	(400)
Net book value	1280	1200

During the year plant and machinery which had originally cost $130 000 was sold for $6000. The depreciation charged on this plant and machinery was $98 000.

Vehicles	$000	$000
Cost	900	900
Additions	1270	–
Disposals	(200)	–
Accumulated depreciation	(650)	(420)
Net book value	1320	480

During the year vehicles which had originally cost $200 000 were sold at a profit of $7000. The sales proceeds were $37 000.

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Note 2

$140 000 debentures were redeemed on 30 September 2009.

Note 3

In May 2009 a bonus issue of 1 new ordinary share for every 4 held was made. It is company policy to maintain reserves in their most flexible form. A rights issue of 1 ordinary share for every 5 held at a premium of $2 each was made in February 2010.

REQUIRED

(a) Prepare a statement to show the reconciliation of profit from operations (operating profit) to net cash flow from operating activities for the year ended 31 March 2010. [13]

(b) Prepare a statement of cash flows (cash flow statement) for the year ended 31 March 2010 in good form. [16]

(c) Calculate the net debt of Costello plc at both 31 March 2009 **and** 31 March 2010.

Prepare a reconciliation showing the movement between the two figures. [7]

(d) State **two** reasons why a business might prepare a statement of cash flows (cash flow statement). [4]

[Total: 40]

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3 The committee of the Qadir Cricket club want your financial advice about employing Brad Driscoll at the start of next season.

Brad is a young player who has impressed cricket lovers all over the world. He would sign a 5 year contract. He would receive an initial payment and be paid a salary as follows:

		$
Initial payment		200 000
Salary year	1	30 000
	2	36 000
	3	43 200
	4	51 840
	5	62 208

The club would rent an apartment for Brad. The rent of the apartment would be as follows:

		$
Rent year	1	3 600
	2	3 600
	3	4 500
	4	4 500
	5	4 500

The total rent for each year would be paid at the start of the year.

The club would pay Brad $1000 at the end of **each** year towards the air fare to visit home.

Without Brad attendance receipts would remain constant at $1 000 000 per year.

If Brad were employed receipts would rise by 10% each year.

REQUIRED

(a) Calculate the net cash flow generated by the new player, Brad Driscoll. [22]

The current cost of capital for the club is 12%.

The present value of $1 at an interest rate of 12% per annum is:

Year 1	$0.893
Year 2	$0.797
Year 3	$0.712
Year 4	$0.636
Year 5	$0.507

REQUIRED

(b) Calculate the net present value for Brad. [8]

(c) Calculate the discounted payback period for Brad. [4]

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The Qadir Cricket Club has also considered employing a different player, Tanzeel. The club accountant has calculated the net present value of Tanzeel to be $181 606 and that his payback period would be 2.27 years. Tanzeel would retire from cricket at the end of year 3.

REQUIRED

(d) Advise the club committee which player they should employ, Brad **or** Tanzeel. Give reasons for your answer, using both financial and non-financial factors. [6]

[Total: 40]

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