UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2011**

2 hours

Additional Materials: Answer Booklet/Paper

1996113713

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 **7** printed pages and **1** blank page.

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1 Prescott, Rohini and Singh have been in partnership for many years with a profit sharing ratio of 2: 2: 1. Their statement of financial position (balance sheet) at 30 June 2011 was as follows:

Prescott, Rohini and Singh
Statement of Financial Position (Balance Sheet) at 30 June 2011

			$	$
Non-current assets				
Land and buildings			100 000	
Fixtures and fittings			34 500	
Motor vehicles			16 750	151 250
Current assets				
Inventories			23 500	
Trade receivables			14 850	
Bank			7 595	
			45 945	
Current liabilities				
Trade payables			9 450	36 495
				187 745
Non-current liabilities				
Loan from Prescott at 12%				(25 000)
				162 745
Financed by:				
Capital Accounts	Prescott	70 345		
	Rohini	54 250		
	Singh	38 150		162 745

The partners sold their business to Ashburton Ltd on 1 July 2011 for $215 000. Ashburton Ltd took over all of the assets and liabilities except the bank account.

The purchase consideration was satisfied by:

1 The issue of 100 000 ordinary shares of $1 at a premium of $0.50.

2 The issue of 8% debentures redeemable at par in 2020 to Prescott to ensure that he receives the same amount of annual interest that he received from the loan.

3 The balance was paid by cash.

On 1 July 2011 the partnership assets were revalued as follows:

	$
Land and buildings	115 000
Fixtures and fittings	32 000
Motor vehicles	15 000
Inventories	22 000
Trade receivables	13 500

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Ashburton Ltd's statement of financial position (balance sheet) at 30 June 2011 was as follows:

Ashburton Ltd
Statement of Financial Position (Balance Sheet) at 30 June 2011

	$	$
Non-current assets		
Land and buildings	125 000	
Fixtures and fittings	67 750	
Motor vehicles	24 975	217 725
Current assets		
Inventories	22 875	
Trade receivables	14 363	
Bank	28 462	
	65 700	
Current liabilities		
Trade payables	14 630	51 070
		268 795
Financed by:		
Ordinary shares of $1		200 000
Share premium		20 000
Retained profit		48 795
		268 795

REQUIRED

(a) Prepare Ashburton Ltd's statement of financial position immediately **after** the acquisition of the partnership [22]

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An extract from Ashburton Ltd's income statement (profit and loss account) for the year ended 30 June 2011 is shown below:

	$
Revenue	385 746
Cost of sales	246 328
Gross profit	139 418
Expenses	101 925
Operating profit	37 493
Taxation	9 276
Profit after taxation	28 217
Dividend paid	10 000
Retained profit for the year	18 217

Following the acquisition of the partnership Ashburton Ltd anticipate that:

1 the revenue will increase by 60%
2 cost of sales will increase by 40%
3 expenses will increase by 35%.

The projected taxation liability will be $33 500 and the dividend per share will remain unchanged.

REQUIRED

(b) Prepare a forecast income statement (profit and loss account) for Ashburton Ltd for the year ending 30 June 2012. [12]

(c) Calculate the earnings per share for the year ended 30 June 2011 and the forecast earnings per share for the year ending 30 June 2012. [6]

[Total: 40]

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Question 2 is on the next page.

2 Sabrina plc has been trading for many years as a worldwide supplier of office equipment. The summarised accounts prepared for internal purposes for 2011 and 2010 are set out below.

Sabrina plc
Income Statement for the year ended 30 June

	2011	**2010**
	$000	$000
Revenue	2 546	1 458
Cost of sales	981	512
Gross profit	1 565	946
Depreciation	786	384
Other expenses	108	84
Profit on disposal of non-current assets	15	8
Operating profit	686	486
Interest	225	80
	461	406
Taxation	103	94
Profit after taxation	358	312
Dividends	160	80
Retained profit for year	198	232
Retained profit b/f	821	589
Retained profit c/f	1 019	821

Sabrina plc
Statement of Financial Position (Balance Sheet) at 30 June

	2011	**2010**
	$000	$000
Non-current assets	5 214	2 576
Current assets		
Inventories	441	227
Trade receivables	639	361
Bank	–	78
	1 080	666
Current liabilities		
Trade payables	347	287
Dividends	80	40
Taxation	103	94
Bank	195	–
	725	421
Working capital	355	245
Non current liabilities		
8% Debentures (2020)	2 500	1 000
	3 069	1 821
Capital and reserves		
Ordinary share capital	2 000	1 000
Share premium	50	–
Retained earnings	1 019	821
	3 069	1 821

Note:

1 All sales and purchases are made on credit.

2 Non-current assets costing $40 000, with accumulated depreciation of $25 000, were sold during the year.

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REQUIRED

(a) Prepare a reconciliation between cash flows from operating activities and operating profit for the year ended 30 June 2011. [9]

(b) Prepare a cash flow statement for the year ended 30 June 2011 in accordance with IAS 7. [17]

The directors are concerned about the bank overdraft and are seeking a bank loan. The bank asks for some financial information.

REQUIRED

(c) Calculate the following ratios for **both** years, 2011 and 2010.

(i) Return on equity

(ii) Trade receivables collection period (turnover) (in days)

(iii) Trade payables payment period (turnover) (in days)

(iv) Income gearing

(v) Gearing ratio.

[10]

(d) Based on these ratios, state whether the bank is likely to give a loan to Sabrina plc. Give three reasons for your answer. [4]

[Total: 40]

3 Bradley Ltd is considering investing in a project which requires an initial outlay of $800 000.

A net cash inflow of $235 000 is expected at the end of the first year and this is expected to rise by 10% annually until the end of year 4. The project is fully complete and has no residual value at the end of year 5 and the anticipated net cash inflow at this time is just 20% of the initial investment.

The company's cost of capital is 8%.

Extracts from present value tables for $1

Year	8%	15%
1	0.926	0.870
2	0.857	0.756
3	0.794	0.658
4	0.735	0.572
5	0.681	0.497

REQUIRED

(a) Calculate the net present value (NPV) of the project at the company's cost of capital and advise the directors whether the project is acceptable. [13]

(b) Determine the discounted payback period. [7]

(c) Explain briefly what you understand by the internal rate of return (IRR) of a project. [2]

(d) Calculate the IRR of the project. [14]

(e) Identify **four** other factors other than NPV which may be used to determine the acceptability of the project. [4]

[Total: 40]

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