UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/42**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2012**

2 hours

Additional Materials: Answer Booklet/Paper

2891171936

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 **8** printed pages.

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1 The final accounts for Abercrombie plc for the year ended 30 April 2012 had been prepared. Due to a fire it is now necessary to prepare them again from limited information.

The accountant provides you with the following details:

Rate of inventory turnover	10 times
Gross profit ratio	35%
Net profit ratio	15%
Income gearing	12.5%

The administrative expenses for the year were twice as much as the distribution costs.

The taxation charge for the year was equal to half of the interest charge.

The inventories at 30 April 2012 were valued at $81 250 which was 25% higher than the inventories valuation at 1 May 2011.

REQUIRED

(a) Prepare the income statement for the year ended 30 April 2012. [18]

Additional information

1 The non-current asset turnover was 2.

2 The current ratio was 1.9:1.

3 Current assets also included the bank balance and the only current liability was trade payables.

4 Trade receivables turnover was 34 days. All sales were on credit.

5 Trade payables turnover was 59 days. All purchases were on credit.

6 Interest was paid on a 10% debenture redeemable in 2020.

7 No interim dividends were paid but a final dividend of $0.05 per share was proposed.

8 The total proposed dividend was $10 000, ordinary shares are $1 nominal value and there was no share premium.

9 The balance on the retained earnings account at 1 May 2011 was $23 756 credit.

10 There was a revaluation reserve which was the balancing figure.

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REQUIRED

(b) Prepare the statement of financial position at 30 April 2012. [20]

(c) State how a proposed final dividend should be dealt with in the accounts. [2]

[Total: 40]

2 Svindal Ltd is a manufacturing business with one product, the Lind, which has a selling price of $120 per unit.

If all of the product was of good quality the gross profit margin would be 50%. However some of the Linds produced are defective. It is not possible to check if the Linds are defective while they are still in the factory and all production is passed to the sales department. No inventory of finished goods is maintained.

During the year ended 31 December 2011 60% of customers complained that the Lind they had received was faulty. The sales department sent these customers a replacement Lind free of charge.

The income statement showed the following:

Income statement for the year ended 31 December 2011

	$
Revenue	960 000
Cost of production	768 000
Gross profit	192 000
Selling and administrative expenses	207 000
Loss for the year	15 000

REQUIRED

(a) Calculate the number of Linds produced during the year and the cost per unit. [2]

The following information was also available:

Draft statement of financial position at 31 December 2011

	$	$
Non-current assets		
Machinery		30 000
Other non-current assets		20 000
		50 000
Current assets		
Inventory of raw materials	53 200	
Trade receivables	42 800	
Cash and cash equivalents	1 000	
	97 000	
Current liabilities		
Trade payables	33 600	
		63 400
		113 400
Equity		
Ordinary shares of $1 each		140 000
Retained earnings		(26 600)
		113 400

The directors wish to implement a capital reduction scheme on 31 December 2011.

This needs to reflect the following:

1 The directors believe the existing machinery should be scrapped as its output is increasingly unreliable. Its value as scrap metal is $2000.

2 Bank charges of $100 have not been accounted for.

3 $1200 of raw materials have become damp in storage and need to be disposed of for proceeds of $200.

4 A provision for doubtful debts of 5% is to be created.

5 A legal case between Svindal Ltd and a supplier has just been decided in the supplier's favour. The cost to the company is expected to be $12 160

REQUIRED

(b) Calculate the balance on retained earnings at 31 December 2011 after the points above have been dealt with, but before the capital reduction scheme takes place. [7]

(c) Calculate the number of shares in issue and their face value after the capital reduction scheme has taken place. [2]

(d) Prepare the statement of financial position at 31 December 2011 after the capital reduction scheme has taken place. [8]

Sudip owns 100 shares in Svindal Ltd. He is unhappy about the capital reduction scheme and says that his investment has lost value unfairly.

REQUIRED

(e) Explain, giving reasons, whether Sudip is right to be unhappy about the capital reduction scheme. [5]

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On 1 January 2012 the company bought replacement machinery at a cost of $150 000. This purchase was financed by taking out a long term loan with an interest rate of 18% per annum.

The Linds produced by this machinery have the same selling price, but the company expects a 20% increase in the number of units sold. It is expected that only 8% of these Linds will be rejected by customers as faulty. The cost of production per unit is expected to stay the same.

Selling and administrative expenses are 50% fixed and 50% variable. The variable element is expected to decrease by 10% as fewer returns require less work.

The directors intend to pay a dividend equal to 20% of the profit for the year ending 31 December 2012.

REQUIRED

(f) Prepare the forecast income statement for the year ending 31 December 2012. [13]

(g) Calculate the dividend paid per share. [3]

[Total: 40]

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3 Lourien Ltd operates a standard costing system. Its budget for the month was

	$	$
Sales (22 000 units at $21)		462 000
Direct materials (28 600 kilos at $2)	57 200	
Direct labour (48 400 hours at $6)	290 400	347 600
Contribution		114 400

Actual results for the month were	$	$
Sales (21 400 units at $20.80)		445 120
Direct materials (28 400 kilos at $2.05)	58 220	
Direct labour (47 200 hours at $5.90)	278 480	336 700
Contribution		108 420

REQUIRED

(a) Calculate the following variances

(i) sales volume [2]

(ii) sales price [2]

(iii) total sales [2]

(iv) direct materials usage [2]

(v) direct materials price [2]

(vi) total direct materials [2]

(vii) labour efficiency [2]

(viii) labour rate [2]

(ix) total labour [2]

(b) A company operates a standard costing system. State with reasons what effects might be observed if:

(i) raw material is of a higher quality than usual. [6]

(ii) direct labour has a lower skill level than usual. [6]

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REQUIRED

(c) State which costing method is best suited to the following situations:

(i) a company wishes to calculate a break even point. [2]

(ii) a customer requires a quote for the manufacture of a large, one-off item. [2]

(iii) goods are produced in a sequence of continuous manufacturing operations. [2]

(iv) production costs need to contain an element of the costs of support or service departments. [2]

(v) a price is needed for one item out of a set of identical items. [2]

[Total: 40]

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