Cambridge International A Level

Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2014**

2 hours

No Additional Materials are required.

0139309672

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [ ] at the end of each question or part question.

This document consists of **7** printed pages, **1** blank page and **1** insert.

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1 Aston, Brutus and Cesar have been in partnership for many years sharing profits and losses in the ratio 2:2:1. They provided the following information.

Aston, Brutus and Cesar
Statement of financial position at 30 September 2014

		$	$
Assets			
Non-current assets			
Land and buildings			210 000
Plant and machinery			27 950
Motor vehicles			11 352
			249 302
Current assets			
Inventory		17 632	
Trade receivables		9 340	
Cash and cash equivalents		2 546	
			29 518
Total assets			278 820
Capital and liabilities			
Capital accounts	Aston	80 000	
	Brutus	60 000	
	Cesar	20 000	160 000
Current accounts	Aston	12 735	
	Brutus	10 873	
	Cesar	(2 628)	20 980
Non-current liabilities			
Loan from Aston			75 000
Current liabilities			
Trade payables			22 840
Total capital and liabilities			278 820

On 30 September 2014 they decided to dissolve the partnership. The terms of the dissolution were:

1. Land and buildings were sold for $217 000.

2. Plant and machinery was sold for $25 000.

3. Motor vehicles were disposed of as follows: one to Aston and one to Brutus at an agreed value of $4000 each, with the remaining motor vehicles being sold for $5000.

4. The inventory was sold for $18 478.

5. Two customers who owed the partnership $590 and $450 were unable to settle their debts. The remaining credit customers paid in full after receiving a 2% discount.

6. All of the trade payables were paid after they allowed a 5% discount.

7. The total costs of dissolution amounted to $2250.

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REQUIRED

(a) Prepare the partnership realisation account. [13]

(b) Prepare the partners' capital accounts. [10]

(c) Prepare the partnership bank account. [9]

Additional information

Aston is considering investing in a limited company. He does not understand some of the accounting terminology.

REQUIRED

(d) Give an example of a revenue reserve and a capital reserve. [2]

(e) Explain the following terms in accordance with IAS 37:

(i) Provision

(ii) Contingent liability

(iii) Contingent asset [6]

[Total: 40]

2 The directors of Wotknot Limited provided the following information.

Equity and liabilities (balances) at 1 May 2013

	$
Share capital, 200 000 ordinary shares of $0.50 each	100 000
General reserves	40 000
Retained earnings	(40 000)
10% debenture	50 000

At 30 April 2014 inventory was valued at $80 000. This was 100% more than the inventory valuation at 30 April 2013.

The following information is available for the year ended 30 April 2014.

Inventory turnover	10 times
Gross profit margin	40%
Operating expenses to sales ratio	21%
Administrative expenses	$140 000
Transfer to general reserves	$20 000
Dividends paid	$0.08 per share
Non-current asset turnover	0.2 times
Trade receivables turnover	40 days
Trade payables turnover	35 days

The only current assets were inventory and trade receivables. All sales and purchases were on a credit basis.

REQUIRED

(a) Prepare, in as much detail as possible, the income statement for the year ended 30 April 2014. [10]

(b) Prepare the statement of changes in equity for the year ended 30 April 2014. [5]

(c) Prepare, in as much detail as possible, the statement of financial position at 30 April 2014. [12]

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Additional information

The following information is available for Siri Limited, a similar business, for the year ended 30 April 2014.

Inventory turnover	15 times
Gross profit margin	45%
Operating profit margin	15%
Current ratio	2:1
Trade receivables turnover	35 days
Trade payables turnover	28 days
Dividend yield	12%
Gearing	60%

(The market value of Wotknot Limited's shares at 30 April 2014 was $1.60)

REQUIRED

(d) Compare the performance of Wotknot Limited with Siri Limited for the year ended 30 April 2014. [13]

[Total: 40]

3 Rivero Limited manufactures one product, the Alba.

Each unit goes through two processes: Process 1 and Process 2.

The company received an order to supply 10 000 units.

For this, Process 1 required:

Direct materials	42 000 kilos at $6 per kilo
Direct labour	21 000 hours at $10 per hour
Variable overhead	$3 per direct labour hour
Fixed overhead	$84 000

At the end of Process 1, 10 000 Albas were transferred to Process 2 at a value at $600 000.
A percentage of units were scrapped and sold for $18 per unit.

REQUIRED

(a) Prepare the Process 1 account. [7]

(b) Calculate

(i) The number of units which were sold for scrap. [3]

(ii) The percentage of normal loss. State your answer to **two** decimal places. [3]

Additional information

For Process 2 **each** Alba requires an additional:

One kilo of direct material at $5 per kilo.

Three hours of direct labour at $11 per hour.

Variable overhead at $3 per direct labour hour.

Fixed overhead at $6 per completed unit.

There is **no loss** in Process 2.

8000 Albas had been completed and transferred to finished goods.
2000 Albas were 80% complete as to direct materials and 40% complete as to direct labour.

REQUIRED

(c) Calculate the value of the work-in-progress. [5]

(d) Prepare the Process 2 account. [10]

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(e) Copy the table below on to your answer paper and calculate the total costs of completing the order for 10 000 Albas.

	$	$
Total net costs to date		……
Costs to complete		
Direct materials	……	
Direct labour	……	
Variable overhead	……	
Fixed overhead	……	
Total costs to complete		……
Final total costs		……

[7]

Additional information

Rivero Limited expects to earn 25% profit on all its orders. They have been approached by a new customer who wishes to place a similar order for 10 000 Albas. They have offered to pay $1 180 000.

REQUIRED

(f) Advise the directors of Rivero Limited on the acceptability of this order. [5]

[Total: 40]

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