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CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING 9706/4

PAPER 4 Problem Solving (Extension Topics)

OCTOBER/NOVEMBER SESSION 2002

2 hours

Additional materials:
Answer paper

TIME 2 hours

INSTRUCTIONS TO CANDIDATES

Write your name, Centre number and candidate number in the spaces provided on the answer paper/answer booklet.

Answer **all** questions.

Write your answers on the separate answer paper provided.

If you use more than one sheet of paper, fasten the sheets together.

INFORMATION FOR CANDIDATES

The questions in this paper carry equal marks. The number of marks is given in brackets [ ] at the end of each question or part question.

All accounting statements are to be presented in good style. Workings should be shown.

You may use a calculator.

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1 (a) Istaimy plc's summarised Balance Sheet at 30 April 2001 was as follows:

	$000
Fixed assets	1300
Net current assets	740
	2040
Ordinary shares of $1	1200
10% Preference shares of $1	300
Share Premium account	200
Profit and Loss Account	340
	2040

On 1 May 2001, before any further transactions had taken place, it was decided to redeem all the preference shares at a premium of $0.30. The shares had originally been issued at $1.20 per share. In order to provide funds for the redemption, the company issued a further 100 000 ordinary shares at a premium of $0.25.

REQUIRED
Prepare Istaimy plc's Balance Sheet as it will appear immediately after the issue of the additional ordinary shares and the redemption of the preference share capital. [15]

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(b) The following is the Balance Sheet of the Erchetai partnership at 30 April 2002.

	$	$
Goodwill		50 000
Tangible fixed assets		928 000
		978 000
Current assets		
Stock	40 000	
Debtors	76 000	
Bank	80 000	
	196 000	
Current liabilities	29 000	167 000
		1 145 000
Long term liability		
Loan (carrying interest at 8% per annum)		100 000
		1 045 000
Partners' capitals		1 045 000

On 30 April 2002, Istaimy plc acquired the business of the Erchetai partnership. The following matters were taken into consideration in fixing the terms of the acquisition:

1. No depreciation had been provided on freehold buildings. It was agreed that a provision of $128 000 should have been made.

2. On 1 April 2002 Erchetai had purchased a machine. The cost was $60 000.
   $20 000 was paid immediately.The balance is payable by four equal instalments on 1 May, 1 June, 1 July and 1 August, together with interest at the rate of 12% per annum.
   Only the initial payment of $20 000 had been recorded in the partnership's books.
   It was Erchetai's policy to depreciate machinery at the rate of 15 per cent per annum on cost, and to provide for a full year's depreciation in the year of purchase.

3. A debtor owing $5000 at 30 April 2002 has since become bankrupt. Erchetai has been advised that a dividend of 20 per cent will be paid.

4. Stock has been valued at cost. Investigation shows that if stock had been valued at net realisable value it would have been valued at $28 000. If separate valuation at the lower of cost and net realisable value had been applied to each item of stock it would have been valued at $30 000.

The purchase consideration was satisfied as follows:

The long term loan was satisfied by the issue of $80 of 10% debenture stock 2008/10 for every $100 of the loan.

The partners were issued, for every $50.00 of capital, with:
3 x 8 per cent preference shares at $1.20 per share,
and 3 ordinary shares of $10.00 each at $12.50.

REQUIRED
Prepare the journal entry to record the purchase of the partnership business in the books of Istaimy plc. Your answer should include cash transactions. [25]

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2 The following is Prophile plc's Balance Sheet at 31 October 2002.

	At cost $000	Depn. $000	Net Book Value $000
Tangible fixed assets			
Freehold premises	850	90	760
Plant and machinery	1197	469	728
			1488
Current assets			
Stock		191	
Debtors		82	
Cash at bank		25	
		298	
Creditors: amounts due within one year			
Trade creditors	73		
Dividends (ordinary)	40	113	185
			1673
Creditors: amounts due after more than one year			
10% debenture stock 2002/2005			300
			1373
Share capital and reserves			
Ordinary shares of $1			850
8% Preference shares of $1			100
Share premium			150
General Reserve			100
Profit and Loss Account			173
			1373

The company's accountant has prepared a budgeted Profit and Loss Account and a budgeted cash flow statement for the year ending 31 October 2003.

Extract from the budgeted Profit and Loss Account for the year ending 31 October 2003:

	$000	$000
Operating profit		243
Debenture interest		(20)
Profit for the financial year		223
Transfer to General Reserve	60	
Preference dividend paid	8	
Ordinary dividends – interim	30	
– proposed	50	148
Retained profit for the year		75

Note to budgeted Profit and Loss Account:
Statement of total recognised gains and losses

	$000
Profit for the financial year	223
Unrealised surplus on revaluation of freehold premises	240
Total gains and losses recognised since last annual report	463

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Budgeted cash flow statement for the year ending 31 October 2003:

	$000	$000
Net cash inflow from operating activities		458
Servicing of finance and returns on investments		
Interest paid	(20)	
Preference dividend paid	(8)	
Net cash outflow from servicing finance and returns on investments		(28)
Capital expenditure and financial investment		
Payments for plant and machinery	(293)	
Proceeds from sale of plant and machinery	41	(252)
		178
Equity dividends paid		(70)
		108
Issue of 150 000 ordinary shares of $1	210	
Redemption of debentures	(100)	
Redemption of 100 000 8% preference shares of $1 (the shares were originally issued at $1.10 per share)	(120)	(10)
Increase in cash		98

Reconciliation of operating profit to cash inflow from operating activities	
Operating profit	243
Depreciation of plant and machinery	200
Profit on disposal of plant and machinery (see note below)	(20)
Decrease in stock	76
Increase in debtors	(15)
Decrease in creditors	(26)
Net cash inflow from operating activities	458

Note. The plant and machinery had cost $110 000.

REQUIRED
Prophile plc's budgeted Balance Sheet as at 31 October 2003 in as much detail as possible. Show all workings. [40]

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3 Pressco plc manufactures products which pass through three processes. The costing records for Processes 1 and 2 give the following information:

	Process 1	Process 2
Materials per unit	2 kilos	3 litres
Cost of materials per kilo/litre	$2.50	$1.50
Materials used in process at cost	$40 000	
Additional materials used in process		to be calculated
Direct labour per unit	2 hours	45 minutes
Labour cost per hour	$14	$12
Variable overhead per unit	$3 per direct labour hour	$2 per direct labour hour
Fixed overhead absorption rate	$4.50 per direct labour hour	$9 per direct labour hour

Further information

Process 1: There were no opening or closing stocks of work in progress. All production from this process was passed to Process 2.

Process 2: There was no opening stock of work in progress. There was a closing stock of work in progress consisting of 500 units which were complete as to 80 per cent of materials and 60 per cent of labour.

REQUIRED

(a) Prepare the accounts for Processes 1 and 2. [24]

(b) Calculate the cost of

(i) one completed unit of production in Process 1.

(ii) one completed unit of production in Process 2.

(iii) one unit of work in progress in Process 2.

[3]

6000 units from Process 2 were used in Process 3, as a result of which two joint products X and Y were produced. The costs of this process were as follows:
materials $4525; labour $9250; variable overheads $2700; fixed overheads $5400.
10 per cent of production in Process 3 was spoiled. X represented 75 per cent of the good production, and Y the remainder. There were no opening or closing stocks of work in progress.

REQUIRED

(c) Calculate the quantities of (i) X and (ii) Y produced in Process 3. [3]

(d) Calculate the cost of each unit of output of Process 3. [5]

(e) Calculate the values of the finished stocks of (i) X and (ii) Y. [2]

(f) **(i)** Explain what is meant by a by-product. [2]

(ii) State [illegible] [1]

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