

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.

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

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

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]

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

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

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]

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

Tangible fixed assets

	At cost \$000	Depn. \$000	Net Book Value \$000
Freehold premises	850	90	760
Plant and machinery	<u>1197</u>	<u>469</u>	<u>728</u>
			1488

Current assets

Stock		191	
Debtors		82	
Cash at bank		<u>25</u>	
		298	

Creditors: amounts due within one year

Trade creditors	73		
Dividends (ordinary)	<u>40</u>	<u>113</u>	<u>185</u>
			1673

Creditors: amounts due after more than one year

10% debenture stock 2002/2005			<u>300</u>
			<u>1373</u>

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			<u>173</u>
			<u>1373</u>

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		<u>(20)</u>
Profit for the financial year		223
Transfer to General Reserve	60	
Preference dividend paid	8	
Ordinary dividends – interim	30	
– proposed	<u>50</u>	<u>148</u>
Retained profit for the year		<u>75</u>

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	<u>240</u>
Total gains and losses recognised since last annual report	<u>463</u>

- 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 I [11]

