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

ACCOUNTING **9706/04**

Paper 4 Problem Solving (Supplementary Topics)

May/June 2006

2 hours

Additional Materials: Answer Booklet/Paper

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. 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.

1 The directors of Franken Ltd have yet to produce a cash flow statement for the year e
28 February 2006.

They have extracted the following trial balance at 28 February 2006:

	Dr $000	Cr $000
Purchases and Sales	914	1 750
Operating expenses (excluding depreciation of fixed assets)	330	
Interest paid	10	
Interim dividend paid	80	
Profit and loss account		450
Land and buildings	700	
Provision for depreciation of land and buildings		90
Machinery	450	
Provision for depreciation of machinery		130
Stock at 1 March 2005	280	
Trade debtors	410	
Bank balance	106	
Trade creditors		190
8% Debentures (2012)		110
Ordinary shares of $1 each fully paid		560
	3 280	3 280

Stock at 28 February 2006 was $339 000

The directors wish to provide for the following:

Taxation	$204 000
Final dividend	$50 000

Depreciation on all fixed assets at 10% per annum using the straight line method

REQUIRED

(a) Prepare a Trading and Profit and Loss and Appropriation Account for the year ended 28 February 2006. [12]

(b) Prepare a Balance Sheet at 28 February 2006. [11]

The Balance Sheet at 28 February 2005 for Franken Ltd is shown below:

	$000 Cost	$000 Aggregate depreciation	$000 NBV
Fixed assets			
Land and buildings	540	90	450
Machinery	340	130	210
	880	220	660
Current assets			
Stock		280	
Trade debtors		375	
Bank balance		185	
		840	
Creditors: amounts falling due in less than one year			
Trade creditors	250		
Taxation	176		
Proposed dividends	24	450	390
			1 050
Creditors: amounts falling due after more than one year			
8% Debentures (2012)			110
			940
Share capital and reserves			
Ordinary shares of $1 each fully paid			490
Profit and loss account			450
			940

Note: There were no disposals of fixed assets during the year.

REQUIRED

(c) Prepare a cash flow statement for the year ended 28 February 2006.

You are **not** required to prepare a reconciliation of net cash to movement in net debt. [13]

(d) Identify and explain **two** reasons why a business may prepare a cash flow statement. [4]

[Total: 40]

2 The directors of Chin Ltd have offered to purchase the business of Anjni Patel.

The balance sheet at 30 April 2006 for Chin Ltd is shown below:

	$	$
Fixed assets		
Premises		120 000
Fixtures		43 500
Motor vehicles		72 000
		235 500
Current assets		
Stock	13 800	
Trade debtors	19 000	
Bank	28 000	
	60 800	
Creditors: amounts falling due in less than one year		
Trade creditors	11 000	49 800
		285 300
Share capital and reserves		
Ordinary shares of $1 each fully paid		150 000
Profit and loss account		135 300
		285 300

The market price of ordinary shares in Chin Ltd is $2.10.

The dividend yield on the shares is 4.5% and the directors of Chin Ltd are confident that the same level of dividend can be maintained if Anjni's business was purchased.

The Balance Sheet at 30 April 2006 of Anjni Patel's business was as follows:

	$	$
Fixed assets		
Premises		30 000
Fixtures		16 000
		46 000
Current assets		
Stock	6 000	
Trade debtors	4 000	
Bank	6 750	
	16 750	
Less **Current liabilities**		
Trade creditors	4 750	12 000
		58 000
Represented by:		
Capital		43 000
Profit		38 000
		81 000
Drawings		23 000
		58 000

The profit made by Anjni's business in the year ended 30 April 2006 is similar to th[illegible]y the business over the past few years.

Anjni can currently earn 5 % per annum on any cash investment she is able to make.

Chin Ltd have offered to take over the assets and liabilities of Anjni's business, except the bank account, at book value.

The purchase consideration is $135 000; it will be settled as follows:

$30 000 cash and
50 000 ordinary shares of $1 in Chin Ltd.

As part of the purchase agreement Anjni will be offered a job working for Chin Ltd at an annual salary of $20 000.

The directors of Chin Ltd will use the purchase of Anjni's business as an opportunity to revalue their premises up to the maximum value possible without the creation of a revaluation reserve.

After the revaluation of the premises the directors will make a bonus issue of two ordinary shares for every three held to members of Chin Ltd who were shareholders at 30 April 2006.

REQUIRED

(a) Prepare a financial statement showing Anjni's expected annual income if she accepts the offer from Chin Ltd. [10]

(b) Advise Anjni whether she should, on financial grounds, accept the offer from Chin Ltd. [4]

(c) Explain **two** non-financial factors that Anjni may take into account before deciding whether or not to accept the offer from Chin Ltd. [4]

(d) Prepare the Balance Sheet of Chin Ltd if the purchase of Anjni's business goes ahead. [22]

[Total: 40]

3 Lagrad Ltd manufactures four types of camera which all use “yugaras”, a compone[illegible]y in one factory. Each “yugara” costs $50 to purchase. Due to a prolonged strike of wor[illegible] “yugara” factory, Lagrad Ltd will only be able to purchase 20 000 this year.

The following information relates to each type of camera manufactured by Lagrad Ltd.

	Digital cameras	Cine cameras	Closed circuit television cameras	Medical cameras
Maximum demand(units)	10 000	4 000	3 000	500
Costs per camera	$	$	$	$
Yugaras	50	100	200	350
Other direct materials	40	90	98	300
Direct labour	20	30	30	55
Fixed costs	60	80	40	70
Profit per camera	50	70	52	490
Selling price per camera	220	370	420	1 265

REQUIRED

(a) Calculate the numbers of each type of camera to be produced and sold that would maximise the profit of Lagrad Ltd. [21]

(b) Prepare a marginal cost statement showing the profit for the year. [9]

(c) Calculate the **total** annual sales revenue required by Lagrad Ltd to break-even this year. [6]

(d) Outline **two** disadvantages that might be encountered if the planned production pattern was adopted. [4]

[Total: 40]

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