UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2013**

2 hours

Additional Materials: Answer Booklet/Paper

7392798573

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 **6** printed pages and **2** blank pages.

1 Manchi plc are preparing their budgets for the forthcoming year ending 30 September 2014. They provide the following information.

Statements of Financial Position at 30 September

	2013 (actual) $000	2014 (budgeted) $000
Assets		
Non-current assets		
Property plant and equipment	3050	3190
Goodwill	400	450
Investments	300	240
	3750	3880
Current assets		
Inventories	750	790
Trade and other receivables	460	425
Cash and cash equivalents	210	574
	1420	1789
Total assets	5170	5669
Equity		
Ordinary shares	1200	1400
Non-redeemable preference shares	500	500
Revaluation reserve	300	400
Retained earnings	930	834
Total equity	2930	3134
Liabilities		
Non-current liabilities		
7% debentures	1000	1300
Current liabilities		
Trade and other payables	960	1075
Current tax liabilities	280	160
	1240	1235
Total liabilities	2240	2535
Total equity and liabilities	5170	5669

Budgeted Statement of Changes in Equity
For Year Ending 30 September 2014

	$000
Retained earnings at 1 October 2013	930
Budgeted profit for year	214
	1144
Dividends payable	(110)
Transfer to share capital (bonus issue)	(200)
Retained earnings at 30 September 2014	834

Additional information

1 The tax charge for the year ending 30 September 2014 has been budgeted as $160 000.

2 Income from investments is budgeted at $40 000.

3 Manchi plc issued additional 7% debentures on 1 October 2013. Interest for the year will be paid on all the issued debentures on 30 September 2014.

4 A bonus issue of 1 new ordinary share for every 6 held is budgeted for 1 April 2014.

5 The following note was extracted from the financial statements at 30 September 2013.

Non-current assets	Cost	Depreciation	Net book value
	$000	$000	$000
Property plant and equipment			
Land	1500	–	1500
Buildings	800	250	550
Plant and equipment	1500	600	900
Motor vehicles	150	50	100
Total	3950	900	3050

6 The land is expected to increase in value by $100 000 during the year.

7 Budgeted capital expenditure for the year on buildings is $80 000; plant and equipment $280 000; motor vehicles $30 000 and goodwill $50 000.

8 Budgeted depreciation for the year on buildings is $50 000; plant and equipment $255 000 and motor vehicles $25 000.

9 Plant and equipment with an original cost of $35 000 and depreciation of $15 000 is budgeted to be disposed of for proceeds of $10 000.

10 An impairment review has shown that the carrying value of the investments should be $240 000 at 30 September 2014.

REQUIRED

(a) Calculate the company's budgeted profit from operations for the year ending 30 September 2014. [5]

(b) Prepare a budgeted statement of cash flows for the year ending 30 September 2014 in accordance with IAS 7. [25]

(c) Prepare the property, plant and equipment section of the non-current assets note to the budgeted statement of financial position at 30 September 2014. [10]

[Total: 40]

2 Dilip, Ephraim and Fonzie have been in partnership for many years preparing accounts to 30 June and sharing profits and losses in the ratio 3:2:1. Due to declining profits they decided to dissolve the partnership on 30 June 2013.

Statement of Financial Position at 30 June 2013

		$	$
Non-current assets			
Land and buildings			195 000
Motor vehicles			43 750
Fixtures and fittings			32 645
			271 395
Current assets			
Inventories		29 875	
Trade receivables		19 765	
Cash and cash equivalents		6 850	
			56 490
Total assets			327 885
		$	$
Capital account	Dilip	60 000	
	Ephraim	50 000	
	Fonzie	40 000	
			150 000
Current account	Dilip	33 865	
	Ephraim	24 910	
	Fonzie	(1 875)	
			56 900
Non-current liabilities			
Bank loan			100 000
Current liabilities			
Trade payables		14 650	
Bank interest accrual		6 335	
			20 985
			327 885

The terms of the dissolution were:

1 The land and buildings were sold for 10% above their net book value. Fixtures and fittings realised 80% of their net book value.

2 Ephraim took over a motor vehicle at an agreed valuation of $10 000. Fonzie took over a motor vehicle at a valuation of $7500. The other vehicles realised $18 500.

3 The inventories realised $21 000.

4 The trade receivables raised $15 750 whilst the partners were able to settle the trade payables in full for $12 500.

5 The dissolution costs totalled $3450.

6 The partners closed the business bank account by drawing the balances due to them after the above took place.

REQUIRED

(a) Prepare the partnership realisation account for the dissolution. [14]

(b) Prepare the partnership bank account. [10]

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

(d) State **three** other reasons why a partnership may be dissolved apart from a decline in profit. [6]

[Total: 40]

3 Honeybush Limited operates a standard costing system. Monthly standard data is as follows.

Sales are 6000 units with a selling price of $26 per unit
Each unit requires 2.4 kilos of raw material costing $3 per kilo
Each unit requires 1.5 hours of direct labour time costing $7 an hour

REQUIRED

(a) Calculate the expected monthly contribution per unit and in total. [8]

(b) Calculate the quantity of raw materials in kilos normally purchased **each** month. Assume inventory levels remain constant. [2]

Early in 2013 a new supplier entered the market, selling the required raw material at $1.80 per kilo. In April Honeybush Limited bought all its raw material from this new supplier.

This raw material was more difficult to work with. Therefore each unit required 2.6 kilos and labour took 40% longer than usual to produce each unit. Overtime premiums caused the average wage rate to rise to $7.80 an hour.

Honeybush Limited managed to produce and sell the usual 6000 units. The selling price had risen by $0.50 per unit.

REQUIRED

(c) Calculate the following variances for April 2013:

(i) Sales price

(ii) Direct materials usage

(iii) Direct materials price

(iv) Total direct materials

(v) Direct labour efficiency

(vi) Direct labour rate

(vii) Total direct labour [14]

(d) Starting with the original expected total contribution from **(a)** use these variances to calculate the actual total contribution. [7]

(e) Calculate the change in contribution for Honeybush Limited arising from its decision to change supplier. [5]

(f) Explain what is meant by the expression ‘flexing a budget’. [4]

[Total: 40]

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