UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/42**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2010**

2 hours

Additional Materials: Answer Booklet/Paper

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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.

This document consists of **6** printed pages and **2** blank pages.

1 Aneeqa and Emilita are two sole traders who decided to form a partnership combining their businesses. At 31 March 2010 their balance sheets were as follows:

Balance sheets at 31 March 2010

	Aneeqa		Emilita		
	$	$	$	$	$
Non-current (fixed) assets					
Premises		–			86 000
Equipment		12 000			19 000
Fixtures		6 000			3 000
Motor vehicle		8 200			–
		26 200			108 000
Current assets					
Inventory (stock)	15 000			5 700	
Trade receivables (debtors)	17 000			18 000	
Cash and cash equivalents (bank)	9 050			–	
	41 050			23 700	
Current liabilities					
Trade payables (creditors)	11 000		12 000		
Cash and cash equivalents (bank)	–		10 850		
				22 850	
Net current assets		30 050			850
		56 250			108 850
Capital		56 250			108 850

The new partnership was formed on 1 April 2010 when their assets were valued at:

	Aneeqa	Emilita
	$	$
Premises	–	120 000
Equipment	16 000	20 000
Fixtures	6 500	2 800
Motor vehicle	12 100	–
Inventory (stock)	14 800	5 100
Goodwill	9 000	5 000

It was agreed that a provision for doubtful debts of 5% would be created, that the bank accounts would be amalgamated and that goodwill would not be retained in the books.

From 1 April 2010:

Interest on capital was to be 10%.
Partners' salaries were to be $10 000 each.
Profits were to be shared between Aneeqa and Emilita in the ratio 2:3 respectively.

REQUIRED

(a) Prepare the balance sheet of the partnership at the start of business on 1 April 2010. [17]

As sole traders Aneeqa and Emilita had earned annual profits of $16 000 and $34 000 respectively. They expect the profits of the partnership to be 10% higher in the first year.

REQUIRED

(b) Calculate the amount of income **each** partner has gained or lost by the creation of the partnership. State which partner has benefitted in terms of income. [9]

(c) Aneeqa and Emilita's future incomes are dependent on their businesses being going concerns.

State which partner has benefitted in terms of job security by the creation of the partnership.

Illustrate your answer with **two** ratios and give reasons for your answer. [10]

(d) Calculate the percentage change in profit which would cause Emilita's income to remain unchanged. [4]

[Total: 40]

2

A Pakenham Ltd has a financial year end of 30 April each year. The manufacturing account showed the following:

Manufacturing account for the year ended 30 April 2010

	$	$
Inventory (stock) of raw materials at 1 May 2009		12 000
Purchases of raw materials		162 000
Inventory (stock) of raw materials at 30 April 2010		(18 000)
		156 000
Direct labour		160 000
Prime cost		316 000
Factory overheads		
Rent and rates	20 000	
Electricity	72 000	
Other	12 000	104 000
Factory cost of goods produced		420 000
Factory profit		63 000
		483 000

Other information is as follows:

1 During the year ended 30 April 2010 sales were $602 000 and selling and administration costs were $39 000.

2 Rent and rates are allocated on the basis of floor space. The factory occupies 100 m^2 and the office and showroom 150 m^2.

3 Electricity is allocated on the basis of usage with 80% being used in the factory.

4 Pakenham Ltd maintains a provision for unrealised profit account. The balance on this account was $4500 on 1 May 2009 and was $4800 on 30 April 2010. The rate of factory profit had remained constant during the year.

REQUIRED

(a) Prepare an income statement (trading and profit and loss account) for the year ended 30 April 2010. [12]

(b) Calculate the value of inventory (stock) for inclusion in the balance sheet at 30 April 2010. [4]

B Joy Locke sells wooden toy train sets. She sells engines, carriages and pieces of track, any of which may be bought individually. She buys them in plain wood and employs an assistant at $10 an hour to paint them before she sells them.

The following information is available:

	Engine	Carriage	Track
Cost of plain toy	$7.00	$5.00	$2.00
Cost of paint	$0.80	$0.50	$0.25
Number painted in one hour	2	5	10
Selling price	$18.00	$11.00	$4.00

REQUIRED

(c) Calculate the value at which **one** unit of **each** toy is included in inventory (stock) once it is ready for sale. [6]

Joy Locke's financial year end fell on 31 January 2010. Unfortunately she was not able to count her inventory (stock) until 4 February. Her inventory (stock) count showed that there were 14 plain engines and 26 painted engines in inventory (stock).

In the period between 31 January and 4 February the following had taken place:

20 engines had been received from the toymaker.
18 engines had been painted by the assistant.
21 engines had been sold to customers.

It was also discovered that on 30 January ten engines had been sent to a customer on a sale or return basis.

During the inventory (stock) count it was also discovered that one of the engines ready for sale was faulty and it would have to be sold for $4. This engine was believed to have been in inventory (stock) for some time.

REQUIRED

(d) Calculate the total value of the inventory (stock) of engines at 31 January 2010. **Show your workings clearly.** [16]

(e) Name the IAS which deals with inventory (stock). [2]

[Total: 40]

3 Ghosh Ltd is considering expanding its business and has to decide between taking on Project A or Project B. Both projects have a life of four years. Equipment is expected to have no scrap value.

Other information about the projects is as follows:

	Project A	Project B
Initial outlay	$150 000	$140 000
Annual sales	$100 000	$120 000
Annual purchases	$40 000	$65 000
Other costs as a percentage of sales	8%	5%
Increase in working capital	$10 000	$18 000

Ghosh Ltd uses a cost of capital of 10%. Discounting factors at 10% are as follows:

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683

Using a cost of capital of 10% Project B has a net present value of $15 281.

REQUIRED

(a) For **each** of the two projects calculate the following:

(i) the annual net cash flow [2]

(ii) the accounting rate of return [6]

(iii) the payback period. [10]

(b) Calculate the net present value of Project A **only**. [11]

(c) State **two** limitations of **each** of the following:

(i) accounting rate of return [2]

(ii) the payback period [2]

(iii) the net present value. [2]

(d) State which of the two projects Ghosh Ltd should select. Give reasons for your answer. [5]

[Total: 40]

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