UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2011**

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.
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 **4** printed pages.

DC (CW) 32114/2

UNIVERSITY of CAMBRIDGE
International Examinations

1 On 30 April 2010 Frog Log plc's statement of financial position (balance sheet) showed the following:

	$000
Non-current assets	2012
Net current assets	983
	2995
Non-current liabilities	
5% convertible loan stock	250
7% debentures	200
	2545
Equity	
1 000 000 ordinary shares of $1 each	1000
200 000 redeemable ordinary shares of $0.50 each	100
Share premium	750
General reserve	80
Retained earnings	615
	2545

The following additional information is available:

1 On 1 May 2010 the premises were revalued at $530 000.
They were included in the statement of financial position on 30 April 2010 at a cost of $270 000 with accumulated depreciation of $20 000.

2 In August 2010 Frog Log plc redeemed its redeemable ordinary shares at a premium of $0.05 per share.
They had originally been issued at a premium of $0.10 per share.

3 The convertible loan stock is due to be repaid on 31 December 2011.
Loan stock can be converted into ordinary shares at a price of $3 per share in the period between 1 January 2010 and 31 December 2011.
In December 2010 holders of $150 000 of the loan stock decided to convert their loan stock.

4 Profit for the year ended 30 April 2011 was $170 000.
$50 000 was transferred to general reserves.
Dividends paid during the year amounted to $95 000.

5 There were no acquisitions or disposals of non-current assets during the year.
The income statement included depreciation charges of $5000 on the premises and $112 000 on other non-current assets.

6 Current assets on 30 April 2011 totalled $1 610 000.

REQUIRED

(a) Prepare, in as much detail as possible, the statement of financial position (balance sheet) of Frog Log plc at 30 April 2011. [32]

(b) State whether each reserve in your balance sheet is a revenue reserve or a capital reserve. [5]

(c) In what circumstances would stockholders wish to exercise their right to convert loan stock into ordinary shares? [3]

[Total: 40]

2 Poppy and Rose have been in partnership for some years and have a financial year end of 31 December. On 31 December 2009 their balance sheet showed the following:

		$
Capital accounts	Poppy	150 000
	Rose	90 000
Current accounts	Poppy	8 500
	Rose	(2 100)

Poppy and Rose shared profits equally and received annual salaries of $10 000 and $4000 respectively until 30 June 2010. Interest on capital was calculated at 10%.

On 1 July 2010 a **new** partnership agreement came into force which stated that:

Poppy and Rose would share profits in the ratio 3:2
receive annual salaries of $24 000 and $18 000 respectively
the rate of interest on capital to remain unchanged
goodwill had a value of $25 000 but it was not to be retained in the books
the premises should be revalued upwards by $70 000.

At the end of the year a trainee accountant produced their year end accounts. He forgot to take into account that the partnership agreement had been changed. He produced a draft set of accounts which showed that on 31 December 2010 the current account balances for Poppy and Rose were $26 350 and $6550 (both credit).

Drawings during the year had been:

	Poppy	Rose
	$	$
6 months ended 30 June	9 000	7 500
6 months ended 31 December	12 000	11 000

Interest on drawings for the year was calculated as:

	Poppy	Rose
	$	$
6 months ended 30 June	820	720
6 months ended 31 December	1 700	1 500

Profits are assumed to accrue evenly across the year.

REQUIRED

(a) Prepare partners' capital accounts for the year ended 31 December 2010. [6]

(b) Calculate the profit for the year ended 31 December 2010. [4]

(c) Prepare appropriation accounts for the 6 month periods ended 30 June 2010 and 31 December 2010. [17]

(d) Calculate the correct balances on each of the partners' current accounts at 31 December 2010. [11]

(e) Suggest **one** reason why Poppy and Rose might have decided to change the partnership agreement. [2]

[Total: 40]

3 Gala Ltd manufactures one product, the Durrell. Its sales for a six month period are expected to be:

2011	Durrells
July	800
August	1050
September	1400
October	1100
November	950
December	850

On 1 July Gala Ltd expects to have 100 Durrells in inventory. It intends to hold inventory levels of 250 Durrells at the end of July and August, 200 at the end of September and October, and 100 thereafter.

REQUIRED

(a) Prepare a monthly production budget for Gala Ltd for the six months July to December. [6]

Each Durrell requires 2 kilos of raw material. Until 31 August this is expected to cost $4 per kilo and $4.50 from 1 September to 30 November and $5 per kilo thereafter.

REQUIRED

(b) Prepare a monthly raw materials purchasing budget for the six months July to December. [6]

Selling prices for the Durrell are expected to be $190 each in July, August and September and $200 each thereafter.

All sales are on credit.

50% of debtors pay in the month following sale and receive 4% cash discount, and the remainder pay in the second month following sale.

REQUIRED

(c) Calculate the expected value of trade receivables on 1 September. [2]

(d) Prepare a monthly trade receivables budget for the four months September to December. [21]

(e) State **three** advantages to Gala Ltd of using budgets. [3]

(f) **(i)** Name **one** item which may appear in an income statement (profit and loss account) which cannot appear in a cash budget. [1]

(ii) Name **one** item which may appear in a cash budget which cannot appear in an income statement (profit and loss account). [1]

[Total: 40]