



UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING

9706/42

Paper 4 Problem Solving (Supplementary Topics)

May/June 2012

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 7 printed pages and 1 blank page.



- 1 Asterix plc, a manufacturing company, has extracted the following balances from its books of account for the year ended 30 April 2012:

| | |
|------------------------------------|-------|
| | \$000 |
| Revenues | 6 500 |
| Purchases of raw materials | 1 450 |
| Carriage inwards | 130 |
| Carriage outwards | 75 |
| Direct labour | 1 675 |
| Factory overheads | 1 350 |
| Office overheads | 1 025 |
| Inventories at 1 May 2011: | |
| Raw materials | 140 |
| Work in progress | 165 |
| Finished goods (at transfer price) | 330 |

Additional information:

- 1 Factory overheads of \$70 000 are accrued at 30 April 2012.
- 2 Office overheads of \$35 000 have been prepaid at 30 April 2012.
- 3 Depreciation for the year on the non-current assets totalled \$150 000 and this is to be split between the factory and the office in the ratio 2:1.
- 4 Completed production is transferred at a mark-up on cost of 20%.
- 5 Inventories were valued on 30 April 2012 as follows:

| | |
|------------------------------------|-------|
| | \$000 |
| Raw materials | 235 |
| Work in progress | 320 |
| Finished goods (at transfer price) | 438 |

REQUIRED

- (a) Prepare a manufacturing account and income statement for the year ended 30 April 2012. [26]
- (b) Prepare an extract from the statement of financial position at 30 April 2012 to show all inventories. [6]

IAS 23 sets out the required accounting treatment for borrowing costs.

REQUIRED

- (c) Explain how the directors should deal with the interest on a loan taken out to acquire a 'qualifying asset'. [5]

IAS 36 sets out the accounting procedures to ensure that assets are carried on the statement of financial position at no more than their recoverable amount.

REQUIRED

- (d) Explain the accounting treatment to ensure that this is achieved. [3]

[Total: 40]

- 2 Hexham, Creakle and Quilp started working in partnership on 1 January 2011, but did not produce a written partnership agreement.

On 1 July 2011 Creakle made a short-term loan to the partnership. No part was repaid before the year end.

At the end of the first year of trading Hexham produced the following statements.

**Income statement and appropriation account
for the year ended 31 December 2011**

| | \$ | \$ |
|-------------------------------|---------------|---------------|
| Profit from operations | | 117 200 |
| Bank interest | 700 | |
| Interest on loan from Creakle | <u>500</u> | <u>1 200</u> |
| Profit for the year | | 116 000 |
| | | |
| Salary to Hexham | 18 000 | |
| Interest on capital | | |
| Hexham | 5 000 | |
| Creakle | 5 000 | |
| Quilp | <u>5 000</u> | <u>33 000</u> |
| | | 83 000 |
| | | |
| Share of profit | | |
| Hexham | 41 500 | |
| Creakle | 20 750 | |
| Quilp | <u>20 750</u> | <u>83 000</u> |

Statement of financial position at 31 December 2011

| | \$ | \$ | \$ |
|------------------------------|--------------|------------------|-----------------|
| Non-current assets | | | |
| Property | | | 110 000 |
| Other | | | <u>40 000</u> |
| | | | 150 000 |
| | | | |
| Current assets | | | |
| Inventory | | 24 800 | |
| Trade receivables | | <u>14 200</u> | |
| | | 39 000 | |
| | | | |
| Current liabilities | | | |
| Trade payables | 9 800 | | |
| Short-term loan from Creakle | 40 000 | | |
| Cash and cash equivalents | <u>6 200</u> | <u>56 000</u> | |
| | | | <u>(17 000)</u> |
| | | | <u>133 000</u> |
| | | | |
| Capital accounts | | | |
| Hexham | | 50 000 | |
| Creakle | | 50 000 | |
| Quilp | | <u>50 000</u> | 150 000 |
| | | | |
| Current accounts | | | |
| Hexham | | 3 500 Cr | |
| Creakle | | 6 250 Dr | |
| Quilp | | <u>14 250 Dr</u> | <u>(17 000)</u> |
| | | | <u>133 000</u> |

REQUIRED

- (a) Applying the provisions of the Partnership Act 1890, prepare a corrected income statement and appropriation account for the year ended 31 December 2011. [5]
- (b) Calculate the drawings made by each partner in the year ended 31 December 2011. [6]
- (c) Calculate the correct current account balances at 31 December 2011. [4]
- (d) Comment on the performance of the partnership during the year and its financial position at 31 December 2011. [8]

Additional information:

Quilp was discouraged by the performance of the business and decided to withdraw from the partnership on 1 January 2012. It was agreed that goodwill of \$12000 had been generated over the year of trading, although it was not to be shown in the books. Property prices had risen during the year and the property was then valued at \$125000.

The business did not have the funds to pay Quilp for his share of the partnership and created a long-term loan paying Quilp interest at 10% a year.

REQUIRED

- (e) Prepare the partners' capital accounts at 1 January 2012. [7]
- (f) Prepare the partners' statement of financial position immediately after the departure of Quilp on 1 January 2012. [6]

On 1 January 2012 Quilp took up employment with a competitor, earning a salary of \$27000 a year.

REQUIRED

- (g) Comment on Quilp's decision to leave the partnership and work for the competitor. [4]

[Total: 40]

- 3 Hiemstra Limited manufactures a single product. It operates a flexible budgetary control system.

REQUIRED

- (a) Explain what is meant by flexible budgetary control. [3]
- (b) Explain why flexible budgetary control is better than a fixed budget to monitor the costs of a business. [4]

The budgeted sales in units for the next three months are:

| Month | Units |
|-------|-------|
| 1 | 1200 |
| 2 | 1400 |
| 3 | 1600 |

At the start of month 1 it will have 200 units of finished goods in stock. It wishes to reduce the closing stock of finished goods by 20 units a month.

REQUIRED

- (c) Prepare the company's production budget in units for months 1-3. [8]

Additional information:

The revenue and cost information for one unit:

| | |
|-----------------|---|
| Selling price | \$29 per unit |
| Direct material | 2 kilograms of material at \$3 per kilogram |
| Direct labour | 0.5 hours at \$10 per hour |

Budgeted factory semi-variable costs are:

| Output in units | Factory overheads |
|-----------------|-------------------|
| 4000 | \$31 000 |
| 4500 | \$33 000 |

Other budgeted factory fixed costs are \$23 500.

REQUIRED

- (d) Calculate the break-even point in units and in value. [7]

Additional information:

The actual results for the three-month period were:

| | |
|-------------------|---------------------------------|
| Sales | 4400 units |
| Selling price | \$28 per unit |
| Direct material | 2 kilograms at \$4 per kilogram |
| Direct labour | 0.4 hours at \$10 per hour |
| Factory overheads | \$36 200 |
| Fixed overheads | \$18 000 |

REQUIRED

- (e) Prepare a flexible budget statement for the three-month period, clearly showing the actual and budgeted data and any variances. [10]
- (f) Explain why, despite an increase in units sold, the actual profit was less than the budgeted profit. [8]

[Total: 40]

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