UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/42**

Paper 4 Problem Solving (Supplementary Topics) **October/November 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 **6** printed pages and **2** blank pages.

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UNIVERSITY *of* CAMBRIDGE
International Examinations

1 Anton, Bassini and Cartwright are in partnership with a profit sharing ratio of 2: 1: 1.

The partnership balance sheet at 30 June 2011 was as follows:

Anton, Bassini and Cartwright
Statement of financial position (balance sheet) at 30 June 2011

			$	$
Non-current assets				
Land and buildings			180 000	
Fixtures and fittings			28 000	
Motor vehicles			14 500	
				222 500
Current assets				
Inventories			25 450	
Trade receivables			13 900	
Cash at bank			8 350	
			47 700	
Current liabilities				
Trade payables			10 200	37 500
				260 000
Non-current liabilities				
Loan account – Anton				35 000
				225 000
Financed by:				
Capital Accounts	Anton	100 000		
	Bassini	50 000		
	Cartwright	50 000		200 000
Current Accounts	Anton	19 532		
	Bassini	7 623		
	Cartwright	(2 155)		25 000
				225 000

On 1 July 2011 the partners decided to dissolve the partnership.

Anton acquired one of the motor vehicles at a valuation of $6000 and Bassini acquired the other one at an agreed value of $4500.

The other assets were sold after valuations as follows:

	$
Land and buildings	142 500
Fixtures and fittings	22 500
Inventories	18 750

The proceeds were banked together with $13 500 collected from trade receivables.

The partnership settled the trade payables at $10 000.

Dissolution expenses of $1 500 were paid.

On 30 June 2011 the current accounts were closed and the balances transferred to the capital accounts.

REQUIRED

Prepare the following accounts to the show the closure of the partnership.

(a) The dissolution account [15]

(b) The partners' capital accounts in columnar format [9]

(c) The bank account [10]

Following the dissolution of the partnership Anton wishes to invest the proceeds from the dissolution together with some other cash totalling $200 000.

There are two investment options in the same company:

Option 1 Purchase $200 000 6% debentures redeemable in 2020.

Option 2 Purchase shares to the value of $200 000. The current market price is $2.50 per share and the dividend per share is $0.15.

REQUIRED

(d) **(i)** Calculate the expected annual income from option 1 **and** option 2.

(ii) Advise Anton which option he should choose. [6]

[Total: 40]

2 The trial balance of Ashbourne plc at 30 June 2011 was as follows:

	Dr. $000	Cr. $000
Land and buildings – cost	8 473	
Land and buildings – depreciation		2 173
Other non-current assets – cost	1 058	
Other non-current assets – depreciation		236
Revenue		7 216
Purchases	4 425	
Distribution costs	1 485	
Administrative expenses	1 098	
Finance charges	80	
Final dividend paid for year ended 30 June 2010	100	
Interim dividend paid for year ended 30 June 2011	125	
Inventories at 1 July 2010	1 596	
Trade receivables	897	
Trade payables		173
Prepaid and accrued expenses	265	146
Bank	74	
Ordinary share capital ($0.50 ordinary shares)		5 000
Share premium		2 500
8% debentures 2020 (issued in 2008)		2 000
Retained earnings		232
	19 676	19 676

Additional information:

1 The inventories at 30 June 2011 were valued at $1 730 000.

2 Land, included in the trial balance total at $4 million, is to be revalued at $5 million.

3 All of the depreciation on the relevant non-current assets has been accounted for.

4 There was a flood at the company's premises on 29 July 2011 resulting in a material uninsured loss of $215 000.

5 On 14 August 2011 the company declared its final dividend for the year ended 30 June 2011 of $0.03 per share.

REQUIRED

(a) Prepare the income statement (profit and loss account) for the year ended 30 June 2011. [12]

(b) Prepare the statement of financial position (balance sheet) at 30 June 2011. [20]

IAS 10 (events after the statement of financial position date) identifies two types of event as adjusting events and non-adjusting events.

REQUIRED

(c) State the difference between adjusting and non-adjusting events. Explain their treatment in the financial statements. [4]

(d) State if the items in points 4 and 5 in the additional information are adjusting or non-adjusting events. Justify your answer. [4]

[Total: 40]

3 Ada Campellini runs a business which retails high quality clothing. It is particularly busy during the festive season.

The budgeted sales and purchases figures for September 2012 to January 2013 are as follows:

	September	October	November	December	January
	$	$	$	$	$
Sales	215 000	225 000	310 000	425 000	195 000
Purchases	175 000	190 000	245 000	135 000	135 000

Additional information:

1 50% of sales are expected to be paid for by cash and these customers will receive a 6% discount.
50% of the **remaining** sales are expected to be paid in the following month and these customers will receive a 3% discount.
The remainder will pay 2 months after the sale.

2 30% of purchases are expected to be paid for in the month of purchase and will receive a 4% discount.
40% of purchases are expected to be paid for in the month after purchase and will receive a 2% discount.
The remainder are paid for 2 months after purchase.

3 The inventories held on 1 November 2012 are budgeted at $180 000.
The inventories held on 31 January 2013 are budgeted at $129 000.

4 Total general expenses are budgeted at $18 000 in November 2012 with an expected 10% rise in December and a 15% reduction (on the December total) in January 2013.
All general expenses are expected to be paid in full in the month in which they occur.

5 The depreciation on the non-current assets acquired before November 2012 will be $1 750 per month.

6 On 1 November 2012 Ada will acquire a new storage system at a cost of $24 000 and will pay 50% of the cost immediately. The remainder will be paid in equal instalments over the following 12 months without any interest charges.

This new non-current asset will be depreciated at 10% per annum on a monthly basis.

7 Ada will make drawings of $3 000 every month except for December 2012. In this month she expects to draw 1.5% of the month's expected sales.

8 The bank balance at 1 November 2012 is expected to be $34 850.

REQUIRED:

(a) Prepare a cash budget, in columnar format, for the 3 months commencing with November 2012. [30]

(b) Prepare a budgeted income statement (profit and loss account) in as much detail as possible from the given information for this 3 month period ending in January 2013. [10]

[Total: 40]

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