



Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING**9706/41**

Paper 4 Problem Solving (Supplementary Topics)

October/November 2014**2 hours**

No Additional Materials are required.

READ THESE INSTRUCTIONS FIRST

An answer booklet is provided inside this question paper. You should follow the instructions on the front cover of the answer booklet. If you need additional answer paper ask the invigilator for a continuation booklet.

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.

The number of marks is given in brackets [] at the end of each question or part question.

This document consists of 7 printed pages, 1 blank page and 1 insert.

- 1 Aston, Brutus and Cesar have been in partnership for many years sharing profits and losses in the ratio 2:2:1. They provided the following information.

Aston, Brutus and Cesar
Statement of financial position at 30 September 2014

| | \$ | \$ |
|--------------------------------|----------------|----------------|
| Assets | | |
| Non-current assets | | |
| Land and buildings | | 210 000 |
| Plant and machinery | | 27 950 |
| Motor vehicles | | <u>11 352</u> |
| | | 249 302 |
| | | |
| Current assets | | |
| Inventory | 17 632 | |
| Trade receivables | 9 340 | |
| Cash and cash equivalents | <u>2 546</u> | |
| | | 29 518 |
| | | |
| Total assets | | <u>278 820</u> |
| | | |
| Capital and liabilities | | |
| Capital accounts | | |
| Aston | 80 000 | |
| Brutus | 60 000 | |
| Cesar | <u>20 000</u> | 160 000 |
| | | |
| Current accounts | | |
| Aston | 12 735 | |
| Brutus | 10 873 | |
| Cesar | <u>(2 628)</u> | 20 980 |
| | | |
| Non-current liabilities | | |
| Loan from Aston | | 75 000 |
| | | |
| Current liabilities | | |
| Trade payables | | 22 840 |
| | | |
| Total capital and liabilities | | <u>278 820</u> |

On 30 September 2014 they decided to dissolve the partnership. The terms of the dissolution were:

1. Land and buildings were sold for \$217 000.
2. Plant and machinery was sold for \$25 000.
3. Motor vehicles were disposed of as follows: one to Aston and one to Brutus at an agreed value of \$4 000 each, with the remaining motor vehicles being sold for \$5 000.
4. The inventory was sold for \$18 478.
5. Two customers who owed the partnership \$590 and \$450 were unable to settle their debts. The remaining credit customers paid in full after receiving a 2% discount.
6. All of the trade payables were paid after they allowed a 5% discount.
7. The total costs of dissolution amounted to \$2 250.

REQUIRED

- (a) Prepare the partnership realisation account. [13]
- (b) Prepare the partners' capital accounts. [10]
- (c) Prepare the partnership bank account. [9]

Additional information

Aston is considering investing in a limited company. He does not understand some of the accounting terminology.

REQUIRED

- (d) Give an example of a revenue reserve and a capital reserve. [2]
- (e) Explain the following terms in accordance with IAS 37:
- (i) Provision
 - (ii) Contingent liability
 - (iii) Contingent asset [6]

[Total: 40]

- 2 The directors of Wotknot Limited provided the following information.

Equity and liabilities (balances) at 1 May 2013

| | \$ |
|---|----------|
| Share capital, 200 000 ordinary shares of \$0.50 each | 100 000 |
| General reserves | 40 000 |
| Retained earnings | (40 000) |
| 10% debenture | 50 000 |

At 30 April 2014 inventory was valued at \$80 000. This was 100% more than the inventory valuation at 30 April 2013.

The following information is available for the year ended 30 April 2014.

| | |
|-----------------------------------|------------------|
| Inventory turnover | 10 times |
| Gross profit margin | 40% |
| Operating expenses to sales ratio | 21% |
| Administrative expenses | \$140 000 |
| Transfer to general reserves | \$20 000 |
| Dividends paid | \$0.08 per share |
| Non-current asset turnover | 0.2 times |
| Trade receivables turnover | 40 days |
| Trade payables turnover | 35 days |

The only current assets were inventory and trade receivables. All sales and purchases were on a credit basis.

REQUIRED

- (a) Prepare, in as much detail as possible, the income statement for the year ended 30 April 2014. [10]
- (b) Prepare the statement of changes in equity for the year ended 30 April 2014. [5]
- (c) Prepare, in as much detail as possible, the statement of financial position at 30 April 2014. [12]

Additional information

The following information is available for Siri Limited, a similar business, for the year ended 30 April 2014.

| | |
|----------------------------|----------|
| Inventory turnover | 15 times |
| Gross profit margin | 45% |
| Operating profit margin | 15% |
| Current ratio | 2:1 |
| Trade receivables turnover | 35 days |
| Trade payables turnover | 28 days |
| Dividend yield | 12% |
| Gearing | 60% |

(The market value of Wotknot Limited's shares at 30 April 2014 was \$1.60)

REQUIRED

(d) Compare the performance of Wotknot Limited with Siri Limited for the year ended 30 April 2014.
[13]

[Total: 40]

3 Rivero Limited manufactures one product, the Alba.

Each unit goes through two processes: Process 1 and Process 2.

The company received an order to supply 10000 units.

For this, Process 1 required:

| | |
|-------------------|-------------------------------|
| Direct materials | 42 000 kilos at \$6 per kilo |
| Direct labour | 21 000 hours at \$10 per hour |
| Variable overhead | \$3 per direct labour hour |
| Fixed overhead | \$84 000 |

At the end of Process 1, 10000 Albas were transferred to Process 2 at a value at \$600 000. A percentage of units were scrapped and sold for \$18 per unit.

REQUIRED

- (a) Prepare the Process 1 account. [7]
- (b) Calculate
- (i) The number of units which were sold for scrap. [3]
- (ii) The percentage of normal loss. State your answer to **two** decimal places. [3]

Additional information

For Process 2 **each** Alba requires an additional:

One kilo of direct material at \$5 per kilo.

Three hours of direct labour at \$11 per hour.

Variable overhead at \$3 per direct labour hour.

Fixed overhead at \$6 per completed unit.

There is **no loss** in Process 2.

8000 Albas had been completed and transferred to finished goods.

2000 Albas were 80% complete as to direct materials and 40% complete as to direct labour.

REQUIRED

- (c) Calculate the value of the work-in-progress. [5]
- (d) Prepare the Process 2 account. [10]

- (e) Copy the table below on to your answer paper and calculate the total costs of completing the order for 10 000 Albas.

| | \$ | \$ |
|-------------------------|-------|-------|
| Total net costs to date | | |
| Costs to complete | | |
| Direct materials | | |
| Direct labour | | |
| Variable overhead | | |
| Fixed overhead | | |
| Total costs to complete | | |
| Final total costs | | |

[7]

Additional information

Rivero Limited expects to earn 25% profit on all its orders. They have been approached by a new customer who wishes to place a similar order for 10 000 Albas. They have offered to pay \$1 180 000.

REQUIRED

- (f) Advise the directors of Rivero Limited on the acceptability of this order. [5]

[Total: 40]

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