UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/41**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2012**

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.
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.

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UNIVERSITY of CAMBRIDGE International Examinations

[Turn over

1 The following balances were extracted from the draft financial statements of Flott plc on 31 January 2012:

	$
Revenue	2 120 600
Purchases	1 180 800
Non-current assets	420 800
Trade receivables	205 400
Trade payables	91 100

REQUIRED

(a) Calculate:

(i) non-current asset turnover; [2]

(ii) trade receivables turnover (in days); [2]

(iii) trade payables turnover (in days). [2]

(b) Comment on the relationship between the trade receivables turnover and the trade payables turnover. What is the probable effect of this relationship? [2]

Additional information:

The non-current asset figure includes the net book value of an item of equipment which was bought on 1 February 2010 at a cost of $50 000. This equipment had been subject to depreciation at the rate of 20% a year on the reducing balance basis.

This equipment could now be sold on the open market for $26 000 although the company would incur transport costs of $200.

If the company continued to use the equipment it could be used for four more years. The associated revenues and costs (excluding depreciation) would be as follows:

Year	Revenue	Costs
	$	$
1	42 292	32 611
2	34 444	25 364
3	30 622	22 500
4	24 810	18 221

The discount factors used by the company are as follows

Year	Discount factor
1	0.909
2	0.826
3	0.751
4	0.683

REQUIRED

(c) Calculate at 31 January 2012:

(i) the equipment's carrying amount; [3]

(ii) its fair value less costs to sell; [2]

(iii) its value in use. [9]

(d) State:

(i) the equipment's recoverable amount at 31 January 2012; [2]

(ii) the value at which the equipment should be included in the statement of financial position at 31 January 2012. [2]

(e) Calculate:

(i) the impairment loss; [2]

(ii) the correct value for total non-current assets in the statement of financial position at 31 January 2012; [2]

(iii) the cost of capital used by the company. [2]

(f) **(i)** Suggest two possible reasons for impairment loss. [4]

(ii) Name the IAS which deals with impairment losses. [2]

Additional information:

The equipment operates in a factory which the company recently built. The figure for non-current assets includes the amounts paid to the seller of the land, the supplier of the building materials, and the building contractor who supplied the labour.

REQUIRED

(g) Name **one** additional cost involved in building the factory which is included in non-current assets. [2]

[Total: 40]

2 Exa Emsig plc provides the following information

Statements of financial position at

	31 March 2012			**31 March 2011**		
	$000	$000	$000	$000	$000	$000
Non-current assets						
Intangible						
Goodwill			148			58
Tangible						
Property			900			550
Plant			248			250
Equipment			950			517
			2 246			1 375
Current assets						
Inventory		620			224	
Trade receivables		230			186	
Cash and cash equivalents		127			58	
		977			468	
Current liabilities						
Trade payables	298			235		
Taxation	46			36		
		344			271	
			633			197
			2 879			1 572
Non-current liabilities						
10% debentures			310			–
			2 569			1 572
Equity						
Ordinary shares of $0.50 each			1 200			800
6% preference shares of $1 each			300			300
Share premium			400			200
Revaluation reserve			350			–
Profit and loss			319			272
			2 569			1 572

Additional information:

	For the year ended 31 March 2012	31 March 2011
	$000	$000
Finance costs for the year excluding debenture interest	16	20
Taxation provided	46	36
Profit for the year attributable to equity holders	?	99
Total dividends paid	140	98
Ordinary dividends paid	122	80

1 The company had undertaken a major expansion during the year.

2 The debentures were issued on 30 September 2011.

3 No new shares had been issued during the year ended 31 March 2011. However a new share issue took place on 30 June 2011.

4 Only one ordinary dividend was declared in the year ended 31 March 2012. All the new shares were eligible for dividend.

5 Property was re-valued on 1 April 2011.

REQUIRED

(a) Calculate for the year ended 31 March 2012:

(i) the profit for the year attributable to equity holders; [2]

(ii) the profit from operations. [3]

(b) Prepare a statement of recognised income and expenses for the year ended 31 March 2012, providing comparative figures for the preceding year. [6]

(c) Explain why the goodwill has increased. [4]

(d) Calculate the following for both years, to **two** decimal places:

(i) income gearing; [6]

(ii) gearing ratio. [6]

For the year ended 31 March 2011 earnings per share were $0.0506 and the dividend per share was $0.05.

REQUIRED

(e) Calculate for the year ended 31 March 2012:

(i) earnings per share; [4]

(ii) dividend per share. [3]

(f) Comment on the performance of the company over the year from the viewpoint of:

(i) a debenture holder; [3]

(ii) an ordinary shareholder. [3]

[Total: 40]

3 Steerforth Ltd manufactures one product, the Bosco. Each Bosco goes through two production processes before being transferred to the sales department.

The following information is available:

Process 1

Each Bosco requires:

4 kilos of raw material at $2.50 a kilo;
3 hours of direct labour at $6.00 an hour.

There is no work-in-progress.

Normal loss, occurring at the end of the process, is 20%. This is sold at $5.00 per unit.

Process 2

Each Bosco requires:

2 kilos of additional raw materials at $4.00 a kilo;
3 hours of additional direct labour at $8.00 an hour.

There is no normal loss.

Production overheads

Variable production overheads are charged at $2.00 per direct labour hour in both processes.

Fixed production overheads are charged at $7.50 per unit in both processes on units completing the process.

During April 2012, 10 000 Boscos were transferred from process 2 to the sales department.

There was no work-in-progress on 1 April 2012. Work-in-progress in process 2 on 30 April 2012 amounted to 2 000 units, 75% complete as to materials and 50% complete as to labour.

REQUIRED

(a) Calculate the number of units in process 1 during April 2012. [3]

(b) Prepare for April 2012:

(i) the process 1 account; [6]

(ii) the process 2 account. [15]

(c) Calculate the cost per unit of each Bosco transferred to the sales department. [2]

Selling and administration costs amount to $8.00 per Bosco. The normal selling price is $155 per Bosco. Steerforth Ltd has received an order from Limbu who wishes to buy 300 Boscos. Limbu is only prepared to pay $92 per Bosco.

REQUIRED

(d) Using appropriate calculations, advise the directors of Steerforth Ltd whether or not they should accept the order from Limbu. [14]

[Total: 40]

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