UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

* 0 3 5 6 1 4 7 8 4 3 *

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.

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UNIVERSITY of CAMBRIDGE International Examinations

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	500	1 200
Profit for the year		116 000
Salary to Hexham	18 000	
Interest on capital		
Hexham	5 000	
Creakle	5 000	
Quilp	5 000	33 000
		83 000
Share of profit		
Hexham	41 500	
Creakle	20 750	
Quilp	20 750	83 000

Statement of financial position at 31 December 2011

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

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 $12 000 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 $125 000.

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 $27 000 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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