UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Subsidiary Level and Advanced Level

ACCOUNTING **9706/04**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2008**

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. 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.

UNIVERSITY *of* CAMBRIDGE
International Examinations

1 Ahmed, Bola and Chaudhry have been in partnership for a number of years. The final accounts for the year ended 31 March 2008 had been prepared by their new finance manager appointed in late January 2008.

The profit and loss appropriation account showed that:

		$
Ahmed had been credited with a partnership salary		14 000
Interest on capital had been credited at 8 % per annum:	Ahmed	6 000
	Bola	4 800
	Chaudhry	5 040
Interest on drawings		1 340
Each partner's share of residual profits was		38 500

Although the final accounts were numerically accurate the finance manager had not taken into account the following:

1 A new partnership agreement was drawn up and took effect from 1 October 2007.

The new partnership agreement provided that:

Ahmed and Bola would be credited with an annual salary of $10 000 and $6000 respectively.

Interest on fixed capitals would be credited at 6 % per annum.

Residual profits would be shared in the ratio 3 : 2 : 1 respectively.

2 At 30 September 2007 the partners agreed that some assets be revalued at $8000 more than their net book value whilst others were revalued at $2000 less than their net book value. It was further agreed that goodwill would have a value of $72 000, but that goodwill would not be shown in the accounts, but dealt with by adjustments through the partners' capital accounts.

Additional information

At 31 March 2008 the partners' current accounts showed:

	Balances at 1 April 2007	Drawings for the year	Interest charged on drawings April 2007 - September 2007	Interest charged on drawings October 2007 - March 2008
	$	$	$	$
Ahmed	13 020 cr	46 000	185	499
Bola	305 dr	44 000	210	294
Chaudhry	13 785 cr	31 000	105	47

Five twelfths ($\frac{5}{12}$) of the profits had accrued in the 6 months ended 30 September 2007 and seven twelfths ($\frac{7}{12}$) of the profits had accrued between 1 October 2007 and 31 March 2008.

REQUIRED

(a) Prepare detailed capital accounts at 31 March 2008. [11]

(b) Prepare a corrected profit and loss appropriation account for the year ended 31 March 2008. [18]

(c) Prepare detailed current accounts at 31 March 2008. [11]

[Total: 40]

2 Helen Tong is a manufacturer of one type of high quality office desk.

Helen provides the following information from her trial balance at 31 December 2007:

	$
Sales	1 750 000
Purchases of raw materials	230 400
Factory overheads	215 000
Manufacturing royalties	17 500
Direct wages	358 210

Additional information:

1 4000 desks were manufactured during the year ended 31 December 2007.

2 Helen transferred the value of these desks during the year from her manufacturing account to her trading account at a total price of $1 126 140. This represents a mark up over cost, equivalent to the price Helen would have had to pay if she had purchased the desks from an outside supplier.

3 Helen maintains stocks of raw materials at a constant value of $10 000 and stocks of work in progress at a constant value of $12 500.

4 At 31 December 2006 completed goods had been transferred from the manufacturing account to the trading account at cost plus 29 %. Stocks of finished goods were valued at transfer price of $18 769 at 31 December 2007.

5 An extract from Helen's balance sheet at 31 December 2006 shows:

		$
Stocks at cost –	Raw materials	10 000
	Work in progress	12 500
	Finished goods	12 300

6 At 31 December 2007:

Manufacturing royalties paid in advance amounted to $400.

Direct wages remaining unpaid amounted to $1290.

7 80 % of factory overheads are fixed costs; the remainder are variable costs.

REQUIRED

(a) Prepare a manufacturing account for the year ended 31 December 2007. [6]

(b) Prepare a trading account for the year ended 31 December 2007. [9]

(c) Prepare a provision for unrealised profit account for the year ended 31 December 2007. [10]

(d) Calculate in units the margin of safety achieved by the factory in 2007. [9]

(e) Calculate the value of the goods transferred from the factory at the break-even level of output. [3]

(f) Explain **one** reason why a manufacturing business might continue to manufacture goods despite the fact that it may be cheaper to purchase the goods from an outside supplier. [3]

[Total: 40]

3 The following budgeted information is provided for Notlimah Ltd, for the six months ending 30 November 2008. The business assembles cardboard boxes.

Month	Sales	Materials	Wages	Other overheads
	$	$	$	$
June	46 000	15 000	10 000	24 000
July	47 000	15 600	10 000	24 000
August	48 000	16 000	10 100	26 000
September	52 000	17 000	10 600	24 500
October	56 000	18 600	10 750	24 750
November	60 000	21 000	11 500	26 200

Additional information:

1 It is estimated that the bank balance at 1 September will be $1350 overdrawn.

2 10% of all sales are expected to be cash sales.

3 Customers who settle their accounts within one month will receive a 5% discount. Settlement after one month will be strictly net.

4 It is believed that half of all credit customers will settle their debts within one month and that the remainder will pay the following month.

5 All materials will be paid for in the month following order, so that a cash discount of 2½% can be claimed.

6 Other overheads will be paid for in the month following supply.

7 The workforce was granted a 5% pay increase which will come into force on 1 November 2008. The pay rise has not been included in the budgeted figures. Wages are paid in the month following that in which they are earned.

8 The half-yearly interest on 400 000 6% debentures of $1 each is due to be paid on 15 October 2008.

9 1 000 000 ordinary shares of $0.10 were issued in July 2007 at a price of $0.24 each. The final call of 25% is due on 1 November 2008.

10 A new folding machine costing $20 000 will be delivered on 1 September. It will be paid for in two equal instalments on 1 December 2008 and 1 June 2009. It is expected that the machine will be used continuously for the next four years.

11 It is estimated that stock at 1 September 2008 will have a value of $4700 and will rise by $1000 at 30 November 2008.

REQUIRED

(a) Prepare a cash budget for **each** of the **three** months ending 30 September, 31 October and 30 November 2008. [20]

(b) Prepare a forecast trading and profit and loss account for the three months ending 30 November 2008. [14]

(c) Explain **two** differences between a cash budget and a cash flow statement. [4]

(d) Explain **one** measure that the managers of a business might adopt if they are faced with a cash deficit in one month of an annual cash budget. [2]

[Total: 40]

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