UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **October/November 2013**

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 **6** printed pages and **2** blank pages.

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1 Alicia, Beatrice and Chandra have been in partnership for many years sharing profits in the ratio 3:2:1. They prepare their annual accounts to 30 June. Interest on capital was charged at 9%.

The balances on their capital accounts at 1 July 2012 were:

	$
Alicia	45 000
Beatrice	35 000
Chandra	27 500

Chandra decided to retire on 31 March 2013. At that date:

1 Goodwill was valued at $24 000. Goodwill is not maintained in the books of account.

2 All of the assets were revalued to reflect a fall of $7500.

3 The balance on Chandra's account was transferred to a loan account. Interest is to be paid quarterly at 8% per annum commencing on 30 June 2013.

4 In the new partnership Alicia and Beatrice share profits in the ratio 3:2, interest on capital is paid at 8% per annum and no salaries are paid.

REQUIRED

(a) Prepare the partners' capital accounts at 31 March 2013 in columnar form. [12]

Additional information

1 A debt of $6000 which had been written off in the previous year was received on 1 February 2013.

2 The gross profit for the year ended 30 June 2013 was $318 000 and this accrued evenly throughout the year. The following amounts were paid during the year:

	$
Wages	150 000
Rent	30 000
Heat and light	12 000
Sundries	3 000

At 30 June 2013 rent of $2500 had been prepaid and $600 for heat and light was accrued.

REQUIRED

(b) Prepare the partnership income statement and appropriation account for the year ended 30 June 2013. [22]

(c) State **three** advantages to Alicia and Beatrice of replacing Chandra with another partner. [6]

[Total: 40]

2 On 1 July 2011 Voronez plc issued 120 000 ordinary shares of $1 each at a premium of $0.10 per share and 40 000 5% redeemable preference shares of $1 each at a premium of $0.15 per share.

The company made a profit for the year ended 30 June 2012 of $100 000.

On 30 June 2012 the company:

1 paid the dividend on the redeemable preference shares (treated as a financing cost);

2 paid a dividend of $0.10 per share on the ordinary shares;

3 made a bonus issue of one new fully paid ordinary share for every 4 shares held;

4 made a rights issue of one new ordinary share for every 6 shares held after the bonus issue at a price of $1.60 per share. The rights issue was fully subscribed.

REQUIRED

(a) Calculate the amounts which will be included in the company's statement of financial position at 30 June 2012 for each of the following:

Ordinary share capital,

Preference share capital,

Share premium,

Retained earnings. [17]

Additional information

The company made a profit for the year ended 30 June 2013 of $86 000 before paying any dividends.

On 30 June 2013 the company:

1 paid the dividend on the redeemable preference shares;

2 purchased 80 000 of its own ordinary shares at a price of $1.125 each and cancelled them.

REQUIRED

(b) Calculate the amounts which will be included in the company's statement of financial position at 30 June 2013 for each of the following:

Ordinary share capital,

Share premium,

Capital redemption reserve,

Retained earnings. [12]

(c) Explain the circumstances in which the directors of a company would be unable to pay a dividend on ordinary shares. [5]

(d) (i) State **one** reason why a capital redemption reserve is created. [2]

(ii) Explain the way in which you have created the capital redemption reserve. [2]

(iii) State for what purposes a capital redemption reserve may be used. [2]

[Total: 40]

3 Riffatulah, a retailer, is preparing his budgets for the year ending 31 May 2014. He provides the following information.

Statement of Financial Position at 31 May 2013

	$	$	$
Assets			
Non-current assets	Cost	Depreciation	Net book value
Fixtures and fittings	19 200	7 100	12 100
Vehicle	15 100	11 200	3 900
	34 300	18 300	16 000
Current assets			
Inventories			4 800
Trade receivables			11 900
Other receivables (insurance)			350
Cash and cash equivalents			6 600
			23 650
Total assets			39 650
Capital			
Total capital			25 550
Liabilities			
Non-current liabilities			
Bank loan (6%)			8 000
Current liabilities			
Trade payables			6 100
Total liabilities			14 100
Total capital and liabilities			39 650

He prepares budgets using three month periods as follows:

Period	
1	1 June to 31 August
2	1 September to 30 November
3	1 December to 28 February
4	1 March to 31 May

He provides the following budgeted information for the year ending 31 May 2014.

Period	1	2	3	4
Sales (units)	4200	4800	4600	4500
Unit selling price	$3.10	$3.20	$3.40	$3.30
Purchases (units)	4700	4600	4500	4500
Unit purchase price	$1.20	$1.30	$1.30	$1.40

Schedule of receipts and payments

	1	2	3	4
	$	$	$	$
Receipts				
Customer receipts	16 500	14 200	14 000	15 000
Proceeds of vehicle sale			3 400	
Legacy from uncle		5 000		
Total receipts	16 500	19 200	17 400	15 000
Payments				
Supplier payments	5 800	5 700	5 200	4 000
Purchase of new vehicle			18 000	
Purchase of fixtures		3 800		
Rent	2 500	2 500	2 500	2 500
Loan interest		240		
Drawings	3 000	4 000	3 000	5 000
Insurance		2 000		
Administration costs	2 400	2 600	2 600	2 700
Total payments	13 700	20 840	31 300	14 200

Additional information

1 Inventory on 31 May 2014 is expected to have a value of $5100.

2 Discount allowed for the year is expected to be 2% of total sales. Bad debts are expected to be 1% of total sales.

3 Discount received is expected to be 1% of purchases.

4 Riffatulah depreciates vehicles at a rate of 40% a year on the reducing balance basis. He depreciates fixtures and fittings at a rate of 10% a year on cost. He provides a full year's depreciation in the year of purchase and none in the year of disposal. He only keeps one vehicle at a time.

5 The insurance policy runs from 1 September to 31 August each year.

REQUIRED

(a) Prepare a budgeted income statement for the year ending 31 May 2014. [13]

(b) Prepare a budgeted statement of financial position at 31 May 2014. [17]

(c) Using only figures from your answers to **(a)** and **(b)**, calculate Riffatulah's working capital cycle. [7]

(d) Suggest **three** ways Riffatulah could improve his working capital cycle and reduce his bank overdraft. [3]

[Total: 40]

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