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**ACCOUNTING**

**9706/43**

Paper 4 Problem Solving (Supplementary Topics)

**May/June 2015**

**2 hours**

No Additional Materials are required.

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**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.

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This document consists of **8** printed pages and **1** insert.

- 1 The directors of Plantin plc have produced the following.

Plantin plc  
Statement of Financial Position at 1 April 2014

	\$ Cost	\$ Depreciation	\$ Net book value
<b>Non-current assets</b>			
<b>Tangible</b>			
<b>Property, plant and equipment</b>			
Land and buildings	260 000	90 000	170 000
Plant and equipment	<u>152 000</u>	<u>87 000</u>	<u>65 000</u>
	<u>412 000</u>	<u>177 000</u>	235 000
Investments			<u>55 000</u>
			290 000
<b>Intangible</b>			
Goodwill			<u>80 000</u>
			<u>370 000</u>
<b>Current assets</b>			
Inventories			45 000
Trade and other receivables			<u>56 000</u>
			<u>101 000</u>
<b>Total assets</b>			<u>471 000</u>
<b>Equity</b>			
Ordinary share capital (\$1 shares)			100 000
5% Non-redeemable \$1 preference shares			80 000
Retained earnings			<u>110 000</u>
			<u>290 000</u>
<b>Non-current liabilities</b>			
5% debentures			<u>100 000</u>
<b>Current liabilities</b>			
Trade and other payables			24 000
Taxation			40 000
Cash and cash equivalents			<u>17 000</u>
			<u>81 000</u>
<b>Total equity and liabilities</b>			<u>471 000</u>

The following information is also available for the following year.

Extract from Income Statement for the year ended 31 March 2015

	\$
Profit from operations	74 000
Income from investments	5 000
Finance costs	<u>(12 000)</u>
Profit before taxation	67 000
Taxation	<u>(15 000)</u>
Profit for the year	<u>52 000</u>

Statement of cash flows for the year ended 31 March 2015

	\$	\$
<b>Operating activities</b>		
Profit from operations		74 000
Depreciation - buildings		28 000
- plant and equipment		33 000
Impairment of goodwill		20 000
Increase in inventories		(30 000)
Increase in trade receivables		(40 000)
Increase in trade payables		<u>30 000</u>
Cash from operations		115 000
Interest paid		(12 000)
Tax paid		<u>(40 000)</u>
Net cash flow from operations		63 000
<b>Investing activities</b>		
Purchase of non-current assets		
- buildings	(80 000)	
- plant and equipment	(80 000)	
Income from investments	<u>5 000</u>	
		(155 000)
<b>Financing activities</b>		
Redemption of debentures	(50 000)	
Proceeds of issue of non-redeemable preference shares	20 000	
Proceeds of issue of 50 000 ordinary shares	80 000	
Dividends paid (preference)	<u>(4 000)</u>	
		<u>46 000</u>
Net decrease in cash and cash equivalents		(46 000)
Cash and cash equivalents at 1 April 2014		<u>(17 000)</u>
Cash and cash equivalents at 31 March 2015		<u>(63 000)</u>

**REQUIRED**

- (a) Prepare an extract from the statement of changes in equity for the year ended 31 March 2015 showing the retained earnings column. [4]
- (b) Prepare the property, plant and equipment section of the non-current assets note to the statement of financial position at 31 March 2015. [7]
- (c) Prepare Plantin plc's statement of financial position at 31 March 2015. (Comparatives are not required.) [21]

**Additional information**

The directors of Plantin plc have recently discovered a material error in the published financial statements for the year ended 31 March 2014. It was discovered that sales of \$30 000, which had never taken place, had been included in revenue and in trade receivables.

**REQUIRED**

- (d) (i) State how this error has affected the financial statements for the year ended 31 March 2014. [4]
- (ii) Explain how the directors of Plantin plc should deal with this error in its financial statements in accordance with IAS 8. [4]

**[Total: 40]**

- 2 Abdul, Barry and Chandra are in partnership sharing profits and losses in the ratio 3:2:1. No current accounts are maintained.

The following information is available.

Statement of Financial Position at 30 April 2015

	\$	
<b>Assets</b>		
<b>Non-current assets</b>		
Property	500 000	
Equipment	132 000	
Vehicles	<u>150 000</u>	
	<u>782 000</u>	
<b>Current assets</b>		
Inventories	38 000	
Trade receivables	1 000	
Cash and cash equivalents	<u>66 000</u>	
	<u>105 000</u>	
<b>Total assets</b>	<u>887 000</u>	
<b>Capital</b>		
Abdul	441 000	
Barry	294 000	
Chandra	<u>147 000</u>	
	<u>882 000</u>	
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables	<u>5 000</u>	
<b>Total capital and liabilities</b>	<u>887 000</u>	

Chandra decided to retire at the close of business on 30 April 2015 and the following was agreed:

- 1 Goodwill was valued at \$180 000 and was not to be retained in the books.
- 2 Chandra was to be paid \$60 000 from the business bank account.
- 3 Any money still due to Chandra will be treated as a long-term loan to the new partnership of Abdul and Barry.
- 4 Abdul and Barry will continue to trade and will share profits and losses in the ratio 3:2.

**REQUIRED**

- (a) Prepare the partners' capital accounts at 30 April 2015. [10]
- (b) Prepare the opening statement of financial position of the new partnership of Abdul and Barry at 1 May 2015. [5]

**Additional information**

Chandra wishes to invest the \$60 000 which he received from the partnership. He is considering acquiring a debenture **or** convertible loan stock.

**REQUIRED**

- (c) Explain what is meant by a debenture and convertible loan stock highlighting the major difference between them. [5]

**Additional information**

Alternatively, Chandra is considering investing in ordinary shares. He has obtained the summarised financial statements of two companies, Richards Limited and Sobers Limited.

The following data is available.

	Richards Limited \$	Sobers Limited \$
<b>Income Statements</b>		
Gross profit	<u>85 000</u>	<u>65 000</u>
Profit from operations	66 000	48 000
Finance charges	<u>(6 000)</u>	<u>(8 000)</u>
Profit before tax	60 000	40 000
Tax	<u>(30 000)</u>	<u>(20 000)</u>
Profit after tax	<u>30 000</u>	<u>20 000</u>
<b>Statements of Financial Position</b>		
Total assets	<u>500 000</u>	<u>400 000</u>
Equity		
\$1 ordinary shares	150 000	100 000
Share premium	15 000	20 000
Retained earnings	<u>105 000</u>	<u>85 000</u>
	<u>270 000</u>	<u>205 000</u>
Non-current liabilities		
8% debentures (2022)	75 000	100 000
Current liabilities	<u>155 000</u>	<u>95 000</u>
Total equity and liabilities	<u>500 000</u>	<u>400 000</u>

Both companies have non-current assets equal in value to their current assets.

The market value of an ordinary share in Richards Limited is \$1.80.

The market value of an ordinary share in Sobers Limited is \$2.40.

Neither company has paid any dividends during the year.

Richards Limited proposes a final dividend of \$0.06 per ordinary share and Sobers Limited \$0.09 per ordinary share.

**REQUIRED**

(d) Calculate the following ratios for **both** companies.

- (i) Current ratio
- (ii) Return on capital employed
- (iii) Gearing ratio
- (iv) Income gearing
- (v) Earnings per share
- (vi) Price earnings ratio
- (vii) Dividend yield.

[14]

(e) Advise Chandra which company he should invest in. Base your answer on your calculations for the return on capital employed, gearing ratio and income gearing **only**.

[6]

**[Total: 40]**

- 3 In March 2015 Abel-Mwai Limited received an order to produce some mechanical components. These needed to pass through three processes.

Following information about the three processes was available.

	Process 1	Process 2	Process 3
Direct materials per unit	4 kilos at \$6 per kilo	2 kilos at \$5 per kilo	1 kilo at \$3 per kilo
Direct labour per unit	2 hours at \$10 per hour	2 hours at \$12 per hour	3 hours at \$14 per hour
Variable overheads per unit	\$2 per direct labour hour	\$2 per direct labour hour	\$2 per direct labour hour
Fixed overheads per completed unit	\$9	\$6	\$4
Rate of normal loss sold as scrap	None	10%	None
Scrap value per unit	Not applicable	\$50	Not applicable
Work-in-progress maintained	No	No	Yes

At the end of Process 1 production was transferred to Process 2 with a value of \$684 000.

#### REQUIRED

(a) Calculate

- (i) the cost per unit at the end of Process 1 [1]  
 (ii) the number of units transferred from Process 1 to Process 2 [3]

(b) Prepare

- (i) the Process 1 account [5]  
 (ii) the Process 2 account [8]

(c) Calculate

- (i) the number of units transferred from Process 2 to Process 3 [2]  
 (ii) the cost per unit at the end of Process 2, to **two** decimal places [2]

#### Additional information

It has been discovered that if a higher grade of materials costing \$8 per kilo had been used in Process 2, the rate of normal loss would have been reduced by 50%.

#### REQUIRED

- (d) Calculate a revised cost per unit at the end of Process 2 assuming the higher grade materials had been used. Advise management whether these materials should have been bought. [9]

**Additional information**

On 30 April 2015, at the end of Process 3 there were 3000 units 75% complete as to direct materials and 25% complete as to direct labour.

**REQUIRED**

- (e) Calculate the value of the work-in-progress at 30 April 2015. [5]

**Additional information**

The accountant has been asked to prepare a costing report on the order at 30 April 2015.

**REQUIRED**

- (f) Advise the accountant what items might be included in his report. [5]

**[Total: 40]**

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