

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 2006

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. 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.



- 1 The directors of Franken Ltd have yet to produce a cash flow statement for the year ended 28 February 2006.

They have extracted the following trial balance at 28 February 2006:

| | Dr | Cr |
|---|--------------|--------------|
| | \$000 | \$000 |
| Purchases and Sales | 914 | 1 750 |
| Operating expenses (excluding depreciation of fixed assets) | 330 | |
| Interest paid | 10 | |
| Interim dividend paid | 80 | |
| Profit and loss account | | 450 |
| Land and buildings | 700 | |
| Provision for depreciation of land and buildings | | 90 |
| Machinery | 450 | |
| Provision for depreciation of machinery | | 130 |
| Stock at 1 March 2005 | 280 | |
| Trade debtors | 410 | |
| Bank balance | 106 | |
| Trade creditors | | 190 |
| 8% Debentures (2012) | | 110 |
| Ordinary shares of \$1 each fully paid | | 560 |
| | <u>3 280</u> | <u>3 280</u> |

Stock at 28 February 2006 was \$339 000

The directors wish to provide for the following:

| | |
|--|-----------|
| Taxation | \$204 000 |
| Final dividend | \$50 000 |
| Depreciation on all fixed assets at 10% per annum using the straight line method | |

REQUIRED

- (a) Prepare a Trading and Profit and Loss and Appropriation Account for the year ended 28 February 2006. [12]
- (b) Prepare a Balance Sheet at 28 February 2006. [11]

The Balance Sheet at 28 February 2005 for Franken Ltd is shown below:

| | \$000 Cost | \$000 Aggregate depreciation | \$000 NBV |
|--|---------------|------------------------------------|--------------|
| Fixed assets | | | |
| Land and buildings | 540 | 90 | 450 |
| Machinery | <u>340</u> | <u>130</u> | <u>210</u> |
| | <u>880</u> | <u>220</u> | 660 |
| Current assets | | | |
| Stock | | 280 | |
| Trade debtors | | 375 | |
| Bank balance | | <u>185</u> | |
| | | 840 | |
| Creditors: amounts falling due in less than one year | | | |
| Trade creditors | 250 | | |
| Taxation | 176 | | |
| Proposed dividends | <u>24</u> | <u>450</u> | <u>390</u> |
| | | | 1 050 |
| Creditors: amounts falling due after more than one year | | | |
| 8% Debentures (2012) | | | <u>110</u> |
| | | | <u>940</u> |
| Share capital and reserves | | | |
| Ordinary shares of \$1 each fully paid | | | 490 |
| Profit and loss account | | | <u>450</u> |
| | | | <u>940</u> |

Note: There were no disposals of fixed assets during the year.

REQUIRED

(c) Prepare a cash flow statement for the year ended 28 February 2006.

You are **not** required to prepare a reconciliation of net cash to movement in net debt. [13]

(d) Identify and explain **two** reasons why a business may prepare a cash flow statement. [4]

[Total: 40]

- 2 The directors of Chin Ltd have offered to purchase the business of Anjni Patel.

The balance sheet at 30 April 2006 for Chin Ltd is shown below:

| | \$ | \$ |
|---|---------------|----------------|
| Fixed assets | | |
| Premises | | 120 000 |
| Fixtures | | 43 500 |
| Motor vehicles | | <u>72 000</u> |
| | | <u>235 500</u> |
| Current assets | | |
| Stock | 13 800 | |
| Trade debtors | 19 000 | |
| Bank | <u>28 000</u> | |
| | 60 800 | |
| Creditors: amounts falling due in less than one year | | |
| Trade creditors | <u>11 000</u> | <u>49 800</u> |
| | | <u>285 300</u> |
| Share capital and reserves | | |
| Ordinary shares of \$1 each fully paid | | 150 000 |
| Profit and loss account | | <u>135 300</u> |
| | | <u>285 300</u> |

The market price of ordinary shares in Chin Ltd is \$2.10.

The dividend yield on the shares is 4.5% and the directors of Chin Ltd are confident that the same level of dividend can be maintained if Anjni's business was purchased.

The Balance Sheet at 30 April 2006 of Anjni Patel's business was as follows:

| | \$ | \$ |
|---------------------------------|--------------|---------------|
| Fixed assets | | |
| Premises | | 30 000 |
| Fixtures | | <u>16 000</u> |
| | | 46 000 |
| Current assets | | |
| Stock | 6 000 | |
| Trade debtors | 4 000 | |
| Bank | <u>6 750</u> | |
| | 16 750 | |
| Less Current liabilities | | |
| Trade creditors | <u>4 750</u> | <u>12 000</u> |
| | | <u>58 000</u> |
| Represented by: | | |
| Capital | | 43 000 |
| Profit | | <u>38 000</u> |
| | | 81 000 |
| Drawings | | <u>23 000</u> |
| | | <u>58 000</u> |

The profit made by Anjni's business in the year ended 30 April 2006 is similar to that earned by the business over the past few years.

Anjni can currently earn 5% per annum on any cash investment she is able to make.

Chin Ltd have offered to take over the assets and liabilities of Anjni's business, except the bank account, at book value.

The purchase consideration is \$135 000; it will be settled as follows:

\$30 000 cash and
50 000 ordinary shares of \$1 in Chin Ltd.

As part of the purchase agreement Anjni will be offered a job working for Chin Ltd at an annual salary of \$20 000.

The directors of Chin Ltd will use the purchase of Anjni's business as an opportunity to revalue their premises up to the maximum value possible without the creation of a revaluation reserve.

After the revaluation of the premises the directors will make a bonus issue of two ordinary shares for every three held to members of Chin Ltd who were shareholders at 30 April 2006.

REQUIRED

- (a) Prepare a financial statement showing Anjni's expected annual income if she accepts the offer from Chin Ltd. [10]
- (b) Advise Anjni whether she should, on financial grounds, accept the offer from Chin Ltd. [4]
- (c) Explain **two** non-financial factors that Anjni may take into account before deciding whether or not to accept the offer from Chin Ltd. [4]
- (d) Prepare the Balance Sheet of Chin Ltd if the purchase of Anjni's business goes ahead. [22]

[Total: 40]

- 3 Lagrad Ltd manufactures four types of camera which all use “yugaras”, a component made only in one factory. Each “yugara” costs \$50 to purchase. Due to a prolonged strike of workers in the “yugara” factory, Lagrad Ltd will only be able to purchase 20 000 this year.

The following information relates to each type of camera manufactured by Lagrad Ltd.

| | Digital cameras | Cine cameras | Closed circuit television cameras | Medical cameras |
|--------------------------|-----------------|--------------|-----------------------------------|-----------------|
| Maximum demand(units) | 10 000 | 4 000 | 3 000 | 500 |
| Costs per camera | \$ | \$ | \$ | \$ |
| Yugaras | 50 | 100 | 200 | 350 |
| Other direct materials | 40 | 90 | 98 | 300 |
| Direct labour | 20 | 30 | 30 | 55 |
| Fixed costs | 60 | 80 | 40 | 70 |
| Profit per camera | 50 | 70 | 52 | 490 |
| Selling price per camera | 220 | 370 | 420 | 1 265 |

REQUIRED

- (a) Calculate the numbers of each type of camera to be produced and sold that would maximise the profit of Lagrad Ltd. [21]
- (b) Prepare a marginal cost statement showing the profit for the year. [9]
- (c) Calculate the **total** annual sales revenue required by Lagrad Ltd to break-even this year. [6]
- (d) Outline **two** disadvantages that might be encountered if the planned production pattern was adopted. [4]

[Total: 40]

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