Cambridge International Examinations
Cambridge International Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2014**

2 hours

Additional Materials: Answer Booklet/Paper

5900180269

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 an HB pencil for any diagrams, graphs or rough working.
Do not use staples, paper clips, 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 On 1 October 2013, Rezwan Limited agreed to purchase the net assets, excluding cash and cash equivalents, of Nimra, a sole trader.

Nimra provided the following information at 30 September.

	2013	2012
Assets	$	$
Non-current assets		
Land and buildings	110 000	110 000
Plant and equipment	76 500	85 000
	186 500	195 000
Current assets		
Inventory	21 000	17 000
Trade receivables	34 000	28 000
Cash and cash equivalents	11 000	3 500
	66 000	48 500
Total assets	252 500	243 500
Equity capital		
Balance	207 500	201 500
Profit for the year	58 000	54 000
	265 500	255 500
Drawings	54 000	48 000
Total equity	211 500	207 500
Liabilities		
Current liabilities		
Trade payables	41 000	36 000
Total equity and liabilities	252 500	243 500

Additional information

On 1 October 2013:

1 The land and buildings are revalued at $170 000.

2 Additional depreciation of $8 500 is provided on the plant and equipment.

3 Inventory valued at 15% of the total is written off.

4 Bad debts equal to 10% of the trade receivables are written off.

REQUIRED

(a) Calculate the value of the net assets acquired by Rezwan Limited. [6]

Additional information

The directors of Rezwan Limited agreed to pay Nimra five times the average profit for the year for the last two years. They made a payment in cash of $100 000 and issued new $1 ordinary shares to Nimra at a premium of $0.50 for the balance of the purchase price.

REQUIRED

(b) Calculate the amount the directors of Rezwan Limited paid for Nimra's business. [2]

(c) Calculate the number of new $1 shares issued by Rezwan Limited. [4]

Additional information

Rezwan Limited's statement of financial position at 30 September 2013 **before** it acquired Nimra's business and assets is as follows:

Statement of financial position at 30 September 2013

	$
Assets	
Non-current assets	
Land and buildings	120 000
Plant and equipment	60 000
	180 000
Current assets	
Inventory	45 000
Trade receivables	24 000
Cash and cash equivalents	132 000
	201 000
Total assets	381 000
Equity	
Ordinary shares of $1 each	200 000
Share premium	20 000
Retained earnings	110 000
Total equity	330 000
Liabilities	
Current liabilities	
Trade payables	51 000
Total equity and liabilities	381 000

REQUIRED

(d) Prepare Rezwan's statement of financial position at 1 October 2013 immediately **after** acquiring Nimra's business. [14]

(e) Explain why the directors of Rezwan Limited are prepared to pay more for the assets acquired than their book value. [6]

Additional information

The directors of Rezwan Limited expect that the value of goodwill acquired from Nimra may reduce over a period of years.

REQUIRED

(f) Explain, making reference to IAS 36 and 38, how any reduction will be calculated and state the accounting adjustments which will be made in future financial statements. [8]

[Total: 40]

2 Clemens and August are in partnership sharing profits and losses Clemens 60%, August 40%. They did not maintain separate current accounts.

On 1 July 2012 they merged their business with Bleeker, a sole trader.

In the new business, profits and losses are shared: Clemens 50%, August 25% and Bleeker 25%.

The following information was provided.

Summarised Statements of financial position at 30 June 2012

	Clemens and August	Bleeker
	$	$
Non-current assets		
Land and buildings	100 000	30 000
Plant and equipment	35 000	12 000
	135 000	42 000
Net current assets	25 000	3 000
Total assets less current liabilities	160 000	45 000
Capital accounts		
Clemens	64 000	
August	96 000	
Bleeker		45 000
	160 000	45 000

On 1 July 2012, goodwill was valued at $12 000 for Clemens and August, and $8 000 for Bleeker. No goodwill account is kept in the books of the new business.

In the accounts of Clemens and August the following adjustments were made:

1 Land and buildings were valued at $120 000.

2 Additional depreciation of $7 000 was provided on the plant and equipment.

3 The net current assets were written down by $5 000.

REQUIRED

(a) Prepare the capital accounts at 1 July 2012. [12]

(b) Prepare the statement of financial position of the new business at 1 July 2012. [8]

Additional information

During the year ended 30 June 2013 the business made a profit of $320 000. The partners' drawings were:

Clemens	$138 000
August	$47 000
Bleeker	$68 000

(c) Calculate the balance of each partner's capital account at 30 June 2013. [6]

Additional information

On 1 July 2013 Clemens, August and Bleeker converted their partnership into a limited company. The company issued ordinary shares of $1 each to Clemens and August at a premium of 10% and issued $1 non-redeemable 5% preference shares to Bleeker at par.

REQUIRED

(d) Calculate the number of shares issued to **each** partner. [5]

(e) Show the equity section of the statement of financial position at 1 July 2013. [3]

(f) Explain how **each** partner will receive a return on their investment in the new company. [6]

[Total: 40]

3 MW Limited manufactures a single product, a Tu. The finance director prepares monthly budgets.

The following budgeted information is available for the first three months of 2015.

1 The selling price will be fixed at $60 per unit. In January 2015 sales are expected to be 24 000 units. It is anticipated that there will be a 5% increase in sales volume in every subsequent month up to April 2015.

2 The finished goods inventory level at the end of each month will be maintained at one-third of the expected sales volume in the following month. The inventory of finished goods at 31 December 2014 is expected to be 7500 units with a value of $242000. The finished goods inventory value at 31 March 2015 is expected to be $298000.

3 Each unit of Tu requires 10 kilos of raw material. The closing inventory of raw materials each month is expected to meet 20% of the production requirement of the following month. The inventory of raw materials at 31 December 2014 is expected to be 48000 kilos. The purchase price will remain at $1.50 per kilo.

4 Direct labour for the first three months of 2015 is expected to be $850000. Manufacturing overhead is expected to be 50% of direct labour.

REQUIRED

(a) Prepare the sales budget for the period January to March 2015. State the units and revenue for **each** month. [6]

(b) Prepare the production budget for the period January to March 2015. State the units for **each** month. [9]

(c) Prepare the purchases budgets for the period January to March 2015. State the units and cost for **each** month. [15]

(d) Prepare the budgeted trading section of the income statement for the three months ending 31 March 2015. [10]

[Total: 40]

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