

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 2005

**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 on both sides of the paper.  
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.

At the end of the examination, fasten all your work securely together.

The questions in this paper carry equal marks.

All accounting statements are to be presented in good style. 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.

This document consists of 7 printed pages and 1 blank page.



1 The summarised Balance Sheet at 30 April 2005 of Clutterbuck Ltd was as follows:

|   |             |
|---|-------------|
|   | \$000       |
| Fixed assets                            | 2550        |
| Net current assets                      | <u>950</u>  |
|   | 3500        |
| 6% debentures 2005/2006                 | <u>150</u>  |
|   | <u>3350</u> |
| Ordinary shares of \$1                  | 2500        |
| 10% redeemable preference shares of \$1 | 300         |
| Share Premium account                   | 200         |
| Profit and Loss Account                 | <u>350</u>  |
|   | <u>3350</u> |

Further information:

- 1 The market price of the ordinary shares at 30 April 2005 was \$1.60.
- 2 The dividend yield on ordinary shares was  $2\frac{1}{2}$  per cent.
- 3 The creditor for taxation at 30 April 2004 was \$25 000. Taxation paid in the year ended 30 April 2005 amounted to \$22 000. The liability for taxation on the profit of the year ended 30 April 2005 is \$31 000 and is carried forward on the Taxation account.
- 4 The retained profit for the year ended 30 April 2005 was \$60 000.
- 5 The debentures were issued in 1997. The preference shares were issued at par.

### REQUIRED

- (a) Prepare Clutterbuck Ltd's Profit and Loss Account for the year ended 30 April 2005 in as much detail as possible. The Profit and Loss Account should commence with the operating profit. [12]

The following note to the published Balance Sheet gave details of the movements on fixed assets in the year ended 30 April 2005:

| <u>Fixed assets at cost</u>     | Premises | Plant and machinery | Motor vehicles | Total |
|---------------------------------|----------|---------------------|----------------|-------|
|                                 | \$000    | \$000               | \$000          | \$000 |
| At cost at 30 April 2004        | 1000     | 800                 | 560            | 2360  |
| Revaluation                     | 500      | –                   | –              | 500   |
| Purchases                       | –        | 300                 | 260            | 560   |
| Disposals                       | –        | (100)               | (80)           | (180) |
| At cost at 30 April 2005        | 1500     | 1000                | 740            | 3240  |
| <u>Depreciation</u>             |          |                     |                |       |
| Balance at 30 April 2004        | 300      | 380                 | 255            | 935   |
| Revaluation                     | (300)    | –                   | –              | (300) |
| Provided in the year            | –        | 110                 | 95             | 205   |
| Disposals                       | –        | (90)                | (60)           | (150) |
| At 30 April 2005                | –        | 400                 | 290            | 690   |
| Net book value at 30 April 2005 | 1500     | 600                 | 450            | 2550  |

During the year ended 30 April 2005, plant and machinery was sold for \$25 000 and motor vehicles were sold for \$8000.

#### REQUIRED

- (b) Prepare the following extracts from the cash flow statement for the year ended 30 April 2005:
- (i) Reconciliation of operating profit to net cash flow from operating activities;
  - (ii) Capital expenditure.

Your answer should include **only** those items that appear in the note on fixed assets. [6]

Companies are required to provide a statement of recognised gains and losses as a note to their published Profit and Loss Account.

#### REQUIRED

- (c) Prepare the statement of recognised gains and losses which should be shown as a note to Clutterbuck Ltd's Profit and Loss Account for the year ended 30 April 2005. [2]

On 1 May 2005, before any further transactions had taken place, the company decided to carry out the following redemptions:

- (i) all the debentures at a premium of \$0.05
- (ii) all the preference shares at \$1.20 per share out of the proceeds of a new issue of 200 000 ordinary shares of \$1 at \$1.25.

The new issue of ordinary shares was fully subscribed.

**REQUIRED**

- (d) Prepare the Balance Sheet of Clutterbuck Ltd after completion of the new issue of ordinary shares and the redemption of the debentures and preference shares. [14]
- (e) Show, under the appropriate heading, how the redemption of the debentures and preference shares will appear in Clutterbuck Ltd's cash flow statement for the year ending 30 April 2006. [3]

Following the redemption of the debentures and preference shares, the market price of ordinary shares rose from \$1.60 to \$1.85.

**REQUIRED**

- (f) Explain why the redemption of the debentures and the preference shares may have caused the market price of the ordinary shares to rise. Your answer should include a reference to relevant investment ratios. [3]

**[Total: 40]**

**Question 2 is on the following page.**

- 2 The directors of Sperrabuck Ltd were concerned about the company's cash flow. They requested the accountant to prepare a cash budget for the four months ending 31 October 2005.

The following information was available:

|                         |         |
|-------------------------|---------|
| (i) <u>Actual sales</u> |         |
| 2005                    | \$      |
| May                     | 88 000  |
| June                    | 110 000 |
| <u>Budgeted sales</u>   |         |
| July                    | 82 800  |
| August                  | 87 400  |
| September               | 89 700  |
| October                 | 101 250 |
| November                | 120 000 |
| December                | 108 000 |

- (ii) Sales are made as follows:  
 40% of total sales are for cash  
 50% of total sales are on credit and are paid for in the month after sale  
 10% of total sales are on credit and are paid for two months after sale
- (iii) Customers purchasing on credit are allowed a discount of 2% if they pay within one month of purchase.
- (iv) Supplies are purchased two months before sale and paid for one month after purchase.
- (v) The selling price is fixed by adding a mark-up of 40% to the cost of goods sold.
- (vi) Wages of \$8000 per month are paid in the month in which they are earned. It is expected that wages will be increased by a pay award of 5% from 1 September 2005.
- (vii) Staff are paid a bonus of 4% on all sales in excess of \$80 000 each month. The bonus is paid in the following month.
- (viii) Other expenses currently amount to \$7000 per month and are paid in the month in which they are incurred. These expenses are expected to increase by 8% from 1 September 2005.
- (ix) The company will pay a final dividend of \$30 000 in August 2005.
- (x) Sperrabuck Ltd will purchase fixed assets for \$20 000 in September 2005.
- (xi) The balance at bank on 30 June 2005 is \$12 000.

**REQUIRED**

- (a) Prepare a cash budget for Sperrabuck Ltd for **each** of the four months July, August, September and October 2005. Prepare the budget in columnar form and make all calculations to the nearest \$. [28]
- (b) Prepare an extract from the budgeted Balance Sheet at 31 October 2005 showing the current assets and current liabilities as far as the information is available. [6]
- (c) State **three** benefits which may be obtained from the preparation of budgets. [3]
- (d) State **three** advantages that may arise from preparing budgets from standard costs. [3]

**[Total: 40]**

- 3 Passabuck Ltd makes three products: meenibuck, teenibuck and deluxibuk for which the following details are given:

| Product                          | Meenibuck | Teenibuck | Deluxibuk |
|----------------------------------|-----------|-----------|-----------|
| Direct material (kilos per unit) | 5         | 7         | 10        |
| Direct labour (hours per unit)   | 4         | 6         | 8         |
| Direct expenses (per unit)       | \$7       | \$4       | \$9       |
| Selling price per unit           | \$74      | \$85      | \$115     |

Further information:

- 1 All three products are made from material X.
- 2 Material X costs \$3 per kilo.
- 3 All three products require the same type of labour which is paid at \$7 per hour.
- 4 Total fixed costs amount to \$70 000.
- 5 Budgeted production (based upon maximum demand) is:
 

|           |            |
|-----------|------------|
| Meenibuck | 2000 units |
| Teenibuck | 2400 units |
| Deluxibuk | 1800 units |

It has now been discovered that the supply of material X is limited to 38 000 kilos.

#### REQUIRED

- (a) Calculate the contribution per kilo of material X used for each product. [12]
- (b) Prepare a production budget based on your calculation in (a) to give maximum profit from the material available. [11]
- (c) Calculate the following variances:
- (i) total direct materials variance
  - (ii) total direct labour variance
  - (iii) total direct expenses variance
  - (iv) sales volume variance
- [8]
- (d) Using the variances calculated in (c), prepare an accounting statement reconciling the profit which would have been obtained from the original budget and the profit expected from the budget in (b). [9]

**[Total: 40]**