UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
General Certificate of Education
Advanced Level

ACCOUNTING **9706/43**

Paper 4 Problem Solving (Supplementary Topics) **May/June 2012**

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 **7** printed pages and **1** blank page.

1 Smilbo Smaggins plc has been manufacturing cutlery for many years. It provided the following financial statements:

Statements of financial position at 30 April

	2012		2011	
	$	$	$	$
Non-current assets				
Plant and machinery		82 500		64 900
Office equipment		34 519		38 355
		117 019		103 255
Current assets				
Inventories	18 758		16 521	
Trade receivables	17 623		12 517	
Cash and cash equivalents	27 754		6 459	
		64 135		35 497
Total assets		181 154		138 752
Current liabilities				
Trade payables	22 758		18 654	
Taxation	5 350		4 200	
		28 108		22 854
Non-current liabilities				
4% Debentures 2020		30 000		50 000
Net assets		123 046		65 898
Equity				
Ordinary share capital		60 000		40 000
Share premium		18 000		8 000
Retained earnings		45 046		17 898
		123 046		65 898

Income statement for the year ended 30 April 2012

	$
Revenue	396 672
Cost of sales	259 329
Gross profit	137 343
Distribution costs	32 357
Administrative expenses	70 438
Profit from operations	34 548
Finance costs	1 600
Profit before taxation	32 948
Taxation	5 800
Profit attributable to equity holders	27 148

Additional information:

1 The debentures were redeemed at par.

2 Plant and machinery costing $27 500 was sold during the year for $10 000. It had been depreciated by $19 600.

3 Additional machinery was purchased at a cost of $35 000. There is no depreciation charge in the year of acquisition.

4 There were no acquisitions or disposals of office equipment during the year.

REQUIRED

(a) Prepare a statement to show the net cash flow from operating activities. [16]

(b) Prepare a statement of cash flows for the year ended 30 April 2012 in accordance with IAS 7. [13]

Additional information:

1 For the year ended 30 April 2011 the trade receivables turnover was 20 days and the trade payables turnover was 25 days.

2 All sales and purchases are made on credit.

REQUIRED

(c) **(i)** Calculate **both** the trade receivables turnover **and** trade payables turnover for the year ended 30 April 2012. [5]

(ii) Comment on the change in the trade receivables turnover. [3]

(iii) Comment on the change in the trade payables turnover. [3]

[Total: 40]

2 Brian Mills and Beryl Smart had been in partnership for many years. Accounts were prepared to 30 April. It was decided that the partners would retire on 30 April 2012 and the business was sold to Chipperfield Ltd.

The partnership's statement of financial position at 30 April 2012 was as follows:

	$	$
Non-current assets		
Property		85 000
Fixtures and fittings		27 500
Plant and machinery		14 750
		127 250
Current assets		
Inventories	28 800	
Trade receivables	10 950	
Bank	5 450	
		45 200
Total assets		172 450
Current liabilities		
Trade payables		13 950
Non-current liabilities		
Loan from Brian Mills at 8% per annum	15 000	
Loan from Beryl Smart at 6% per annum	10 000	25 000
Net assets		133 500
Capital accounts		
Brian Mills		76 000
Beryl Smart		57 500
		133 500

Chipperfield Ltd's statement of financial position at 30 April 2012 was as follows:

	$	$
Non-current assets		
Property		145 000
Fixtures and fittings		57 750
Plant and machinery		18 750
		221 500
Current assets		
Inventories	39 450	
Trade receivables	12 380	
Bank	69 675	
		121 505
Total assets		343 005
Current liabilities		
Trade payables		18 675
Net assets		324 330
Equity		
300 000 Ordinary shares of $0.50		150 000
Share premium		75 000
Retained earnings		99 330
		324 330

Chipperfield Ltd purchased the business on 1 May 2012 for $160 000. The company took over all of the assets (except the bank account) together with the current liabilities. The purchase consideration was:

1 120 000 ordinary shares of $0.50 nominal value issued at a premium of $0.10.

2 30 000 6% non-redeemable preference shares of $0.50.

3 10% debentures redeemable in 2020 issued so that Brian and Beryl receive the same interest payments as in the partnership.

4 The balance paid from the bank account.

The partnership assets were re-valued as follows:

	$
Property	95 000
Fixtures and fittings	24 500
Plant and machinery	12 500
Inventories	27 500
Trade receivables	10 250

REQUIRED

(a) Prepare Chipperfield Ltd’s statement of financial position at 1 May 2012, after the partnership had been acquired. [22]

Chipperfield Ltd’s profit for the year ended 30 April 2012 was $82 350.

The budgeted profit for the year ended 30 April 2013 is $116 000.

REQUIRED

(b) Calculate the return on capital employed for the two years. State whether Chipperfield Ltd has benefited from the purchase of the partnership. [7]

Additional information:

During the next financial year it is anticipated that plant modernisation will be required and that additional capital will have to be raised. The directors are considering four options:

1 Bonus issue.

2 Issue of 10% debentures.

3 New share issue.

4 Rights issue.

REQUIRED

(c) Explain the advantages and disadvantages of each option and recommend the most appropriate option. [11]

[Total: 40]

3 The directors of a clothing company are proposing to manufacture coats. They anticipate that the coats would stay in fashion for the next 4 years.

This would require the purchase of additional equipment at a cost of $250 000 which would be scrapped after 4 years.

Sales are expected to be 4000 coats in year 1. In years 2 and 3 the expected number of coats sold will increase by 10% on the previous year but will fall to 3500 in year 4.

The selling price of the coats will be $80 in year 1, $90 in years 2 and 3 and $75 in the final year.

Variable costs will be $65 per coat for years 1 and 2, rising to $70 for years 3 and 4.

The company's cost of capital is 10%.

The discount factors are:

Year 1	0.909
Year 2	0.826
Year 3	0.751
Year 4	0.683

REQUIRED

(a) Calculate the net cash flows for each year. [13]

(b) Calculate the accounting rate of return. [7]

(c) Calculate the net present value of the proposal. [11]

(d) Advise the directors whether they should proceed with the proposal. [4]

(e) **(i)** Explain what you understand by the internal rate of return (IRR). [2]

(ii) Identify how IRR could be used to appraise this proposal. [3]

[Total: 40]

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