UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2011 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/41 Paper 4 (Problem Solving (Supplement)), maximum raw mark 120

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a)

	$		$		$		
Retained earnings b/f					–29 520	**1**	
	+		–				
Bank			8 000	**1**			
Insurance claim			9 000	**1**			
Inventory			1 000	**1**			
Debts written off			1 200	**1**			
Fixtures and fittings			2 000	**1**			
Depreciation (400 + 320)	720	**2**					
	720		21 200				
Retained earnings c/f					–50 000	**1of**	**[9]**

(b)

		$		
Previous ord share capital		100 000	**1**	
Retained earnings		–50 000	**1of**	
		50 000	**1of**	
No. of shares	÷	100 000	**1**	
New share value		$0.50	**1of**	**[5]**

(c)

Deed Ltd
Statement of financial position (Balance sheet) at 31 December 2010

$			$		$		
Non-current assets	Cost		Depn		N B V		
Fixtures and fittings	50 000	**1**	24 400	**1**	25 600	**1of**	
Delivery vehicle	20 000		12 800		7 200	**1**	
	70 000		37 200		32 800		
Current assets							
Inventory			32 995	**1**			
Trade receivables			17 100	**1**			
			50 095				
Current liabilities							
Trade payables	19 195	**1**					
Other payables	13 200	**1**					
Cash and cash equivalents	500	**1**	32 895				
					17 200		
					50 000		
Equity							
100,000 ordinary shares of $0.50 each					50 000	**1of**	
1 **1of**							**[12]**

(d)

Share premium account	**2**	
Capital redemption reserve	**2**	
Revaluation reserve	**2**	**[6]**

(e) Revenue reserve –
created by debiting retained earnings
distributable
may be set aside for specific purpose **any two × 2**

Capital reserve –
not created out of profits
not used for cash dividends
may be used for bonus issues **any two × 2** **[8]**

2 (a) (i)

	P'ship		Ukamaka	Chinedu	
	$		$	$	
Original profit	72 000	**1**			
Rent saved	8 800	**1**			
	80 800	**1of**			
IOD	2 100		–1 200	–900	**1**
Salary	–18 000		12 000	6 000	**1**
IOC	–27 500		10 000	17 500	**1**
	37 400		22 440	14 960	**1of**
			43 240	37 560	**1of**

[8]

(ii)

	P'ship		Ukamaka	Chinedu	
	$		$	$	
Original profit	72 000	**1**			
Rent saved	8 800	**1**			
Loan interest	–7 600	**1**			
	73 200	**1of**			
IOD	2 100		–1 200	–900	**1**
Salary	–18 000		12 000	6 000	**1**
IOC	–18 000		10 000	8 000	**1**
	39 300		23 580	15 720	**1of**
			44 380	28 820	
Dividends				5 250	**1**
Interest on savings				1 000	**1**
				35 070	**1of**

[11]

(b) Chinedu would prefer option 1. **1**
His total income is higher. **1**

However option 2 involves less risk. **1**

Knopf plc is likely to be in a different line of business and the fortunes of the partnership are likely to rise and fall in a different fashion. **1**

Under option 1 if the partnership fails Chinedu loses all his income. **1**
Transaction costs would apply to the sale of shares. **1** **[max 4]**

B **(a)** Statement of Financial Position of Adichie plc immediately after transactions

	$000		
Net assets	797	**2**	(820 – 55 + 32)
Equity			
Ordinary shares	620	**1**	(600 + 20)
Share premium	27	**2**	(20 – 5 + 12)
Capital redemption reserve	18	**2**	(50 – 32)
Retained earnings	132	**2**	(150 – 50 + 32)
	797		**[9]**

(b) To buy out a shareholder/group of shareholders
Because a previous need for capital/funds has passed
To make use of spare cash
Other reasonable answer 1 reason to max 3 **[3]**

(c) By using proceeds of a new share issue **1**
By capitalising distributable profits **1**
By using a combination of the two **1** **[3]**

(d) Similarity – both are issues of shares to existing shareholders **1**
Difference – rights issues are for cash; bonus issue does not involve any consideration but is a capitalisation of reserves **1** **[2]**

3 **(a)** Bank

	$000			$000	
Debtors prior year	122	**1**	Balance	15	**1**
Debtors first month (1160 × 0.5 × 0.95)	551	**1**	Creditors (75 + 680 – 90)	665	**1**
Debtors second month (1060 × 0.5)	530	**1**	Rates	18	**1** (with Insurance)
			Insurance	30	
Sale of vehicles	80	**1**	Purchase of vehicle	400	**1**
Sale of eqpt	75	**1**	Purchase of eqpt	310	**1**
Debentures	300	**1** (with Share issue)	S,d,a expenses	184	
Share issue	170		Tax	30	**1**
			Dividend	48	**1**
			Interest	15	**1**
			Balance	113	
	1828			1828	**[14]**

(b) Forecast income statement
for the year ending 30 April 2012

	$000		$000		
Sales			1 260		
Opening inventory	150				
Ordinary goods purchased	680				
Closing inventory	–165				
Cost of sales			665		
Gross profit			595	**2**	
Profit on sale of equipment			5	**1**	
Less expenses					
Discount allowed	29	**1**			
Rates and insurance	42	**1**			
Loss on sale of vehicles	15	**1**			
Depreciation –					
Land and buildings	10	**1**			
Equipment	85	**1**			
Vehicles	120	**1**			
S,d,a expenses	184		485		
Profit from operations			115	**1of**	
Finance charges			15	**1**	
			100		
Tax			20	**1of**	
Profit for the year			80		**[12]**

(c) Forecast Statement of Financial Position at 30 April 2012

	Cost	Dep	NBV			
Non-current assets						
Land and buildings	1 200	60	1 140	**1**		
Equipment	425	130	295	**1**		
Vehicles	400	120	280	**1**		
	2 025	310	1 715			
Current assets						
Inventory		165		**1**		
Trade receivables		150		**1**		
Prepaid rates and insurance		14		**1**		
Cash and cash equivalents		113		**1of**		
		442				
Current liabilities						
Tax	20			**1**		
Trade payables	90	110		**1**		
			332			
Non-current liabilities						
Debentures			300	**1**		
			1 747			
Ordinary shares of $0.50 each			850	**1**		
Share premium			220	**1**		
Retained earnings			677	**2**	(645 + 80 – 48)	
			1 747			**[14]**