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

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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]**

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(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]**

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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** (Rates and 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** (Debentures and Share issue)	S,d,a expenses	184	
Share issue	170		Tax	30	**1**
			Dividend	48	**1**
			Interest	15	**1**
			Balance	113	
	1828			1828	**[14]**

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(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]**

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