CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2002

GCE ADVANCED LEVEL

MARK SCHEME

MAXIMUM MARK : 120

SYLLABUS/COMPONENT : 9706/04

ACCOUNTING

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

Question 1 (a)

Istaimy plc

Balance Sheet at 1 May 2001 after redemption of the preference share capital

	$000	
Tangible fixed assets	1 300	
Net current assets (note 1)	475	(3)
	1 775	
Ordinary share capital (note 2)	1 300	(2)
Capital Redemption Reserve (note 3)	200	(3)
Share Premium (note 4)	165	(4)
Profit and Loss Account	110	(3)
	1 775	

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Allocation of marks

Note 1. Net current assets:	$000	
Before new issue of shares	740	(1)
Proceeds of issue of ordinary shares	125	(1)
Redemption of preference shares	(390)	(1)
	475	

Note 2 Ordinary share capital before new issue	1 200	(1)
Add new issue	100	(1)
	1 300	

Note 3 Capital Redemption Reserve		
Nominal value of new issue of shares	100	(1)
Nominal value of preference shares	(300)	(1)
Reserve required	200	(1)

Note 4 Share Premium Account		
Before new issue of shares	200	(1)
Add premium on new issue	25	(1)
Premium of redemption of preference shares:		
300 000 x $0.30 90 000		
But limited to 300 000 x $0.20	(60)	(1)
	165	(1)

Note 5 Profit and Loss Account		
Before redemption of preference shares	340	(1)
Deduct transfer to C.R.R. (see note 3)	(200)	(1)
excess premium on redemption (see note 4)	(30)	(1)
	110	

(b)

Istaimy plc
Journal

	Dr. $	Cr. $
Tangible fixed assets (note 1)	834 000 (4)	
Stock	30 000 (1)	
Debtors (note 2)	72 000 (2)	
Bank	80 000 (1)	
Creditors (note 3)		69 400 (3)
10 per cent Debenture Stock		80 000 (1)
8 per cent Preference Share capital (note 4)		62 700 (2)
Ordinary share capital (note 5)		627 000 (3)
Share Premium (note 6)		169 290 (2)
Capital Reserve (Negative goodwill note 7)		7 610 (4)
	1 016 000	1 016 000

(1)
Purchase of Erchetai plc for $938 990 the consideration being satisfied by the issue of $80 000 10 per cent debenture stock 2008/10, 62 700 8 per cent preference shares of $1 at $1.20 and 62 700 ordinary shares of $10 at $12.50. (1)

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Allocation of marks

Note 1.

Tangible fixed assets:	$
Per balance sheet at 30 April 2002	928 000 (1)
Reduction in value of freehold buildings	(128 000) (1)
Add Outstanding instalments on machine	40 000 (1)
Deduct additional depreciation on machine	(6 000) (1)
	834 000

Note 2. Debtors:

Per balance sheet at 30 April 2002	76 000 (1)
Less bad debt ($5000 - $1000)	(4 000) (1)
	72 000

Note 3. Creditors

Per balance sheet at 30 April 2002	29 000 (1)
Add: instalments on machine	40 000 (1)
1 month's interest on outstanding instalments	400 (1)
	69 400

(1)
Note 4. Preference share capital $\$1\,045\,000/50 \times 3 = \$62\,700$ (1)

(1) (1) (1)
Note 5 Ordinary share capital $\$1\,045\,000/50 \times 3 \times \$10 = \$627\,000$

Note 6. Share Premium

Premium on 62 700 preference shares at $0.20 per share	12 540 (1)
Premium on 62 700 ordinary shares at $2.50 per share	156 750 (1)
	169 290

Note 7. Capital Reserve:

Tangible fixed and current assets acquired at valuation	1 016 000	(1)
Less creditors	69 400	(1)
Net asset value	946 600	
Purchase consideration (80 000 + 75 240 + 783 750)	938 990	(1)
Capital reserve - negative goodwill	7 610	(1)

Q2

Budgeted Balance Sheet of Prophile plc at 31 October 2003

	At cost $'000s	At valuation $'000s	Depn. $'000s	NBV $'000s	Notes
Tangible fixed assets					
Freehold premises (note 1)		1 000 (2)	-(1)	1 000 (1) OF	1
Plant and machinery	1 380 (3)		580 (3)	800 (1) OF	2
				1 800	
Current assets					
Stock			115 (3)		3
Debtors			97 (3)		4
Cash at bank			123 (2)		5
			335		
Creditors: amounts due within one year					
Trade creditors		47 (3)			6
Dividends		50 (1)	97	238	7
				2 038	
Creditors: amounts due after more than one year					
10% debenture stock 2002/2005 (must be deducted)				200 (2)	8
				1 838	
Share capital and reserves					
Ordinary shares of $1				1 000 (2)	9
Share premium account				200 (4)	10
Revaluation Reserve				240 (2)	11
General Reserve				160 (3)	12
Profit and Loss Account				238 (4)	13
				1 838	

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Allocation of marks in Question 2

1. Freehold premises	Cost $000	Depreciation $000	NBV $000
At 31.10.2002	850 (1)	(90)	760
Revaluation	150 (1)	90	240
At 31.10.2003	1000	- (1)	1000 (1)

2. Plant and machinery	Cost $000	Depreciation $000	NBV $000
At 31.10.2002	1 197	(469)	728
Additions	293 (1)		293
Depreciation		(200) (1)	(200)
Disposals	(110) (1)	89 (1)	(21)
At 31.10 2003	1 380 (1)	580 (1)	(800) (1)

The following in $000:

The following in $000:

3. Stock $(191 – 76) = $115 (1) (1) (1)

4. Debtors $(82 + 15) = $97 (1) (1) (1)

5. Cash at bank $(25 + 98) = $123 (1) (1)

6. Creditors $(73 – 26) = $47 (1) (1) (1)

7. Dividends: ordinary $(40 + 30 – 70 + 50(proposed)) = $50 (1)

8. Debentures $(300 - 100) = $200 (1) (1)

9. Ordinary shares $(850 + 150) = $1000 (1) (1)

10. Share Premium account at 31.10.2002 $150 (1)
premium on share issue 60 (1)
premium on redemption of preference shares (part) (10) (1)
At 31.10.2003 $ 200 (1)

11. Revaluation Reserve $240 (see 1. above) (2)

12. General reserve $(100 +60) = $160 (1) (1) (1)

13. Profit and Loss Account

	$'000s
At 31.10.2002	173 (1)
Less surplus of premium on redemption of preference shares not charged to Share Premium account	(10) (1)
Retained profit for the year	75 (1)
At 31.10. 2003	238 (1)

Question 3A

(a)

Process 1

	$'000s		$'000s
Materials	40 000 (1)	Transferred to Process 2	384 000 (1) OF
Direct labour	224 000 (1)		
Variable overhead	48 000 (1)		
Fixed overhead	72 000 (1)		
	384 000		384 000

Process 2

Materials from Process 1	384 000 (1) OF	Transferred to Process 3	
Added materials (note 1)	35 550 (4)	(note 5)	523 125 (1) OFs if
Direct labour (note 2)	70 200 (4)	Work in progress (note6)	
Variable overhead (note 3)	11 700 (4)	c/d	30 975 (1) working shown
Fixed overhead (note 4)	52 650 (4)		
	554 100		554 100
Work in progress b/d	30 975		

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		$
Note 1 Additional materials	(1) (1) (1)	
Completed units (7500 x 3 x $1.5)		33 750
Work in progress(500 x 3 x 0.8 x $1.5)	(1)	1 800
		35 550
Note 2 Direct labour	(1) (1) (1)	
Completed units(7500 x 0.75 x $12)		67 500
Work in progress(500 x 0.75 x 0.6 x $12	(1)	2 700
		70 200
Note 3 Variable overhead	(1) (1) (1)	
Completed units(7500 x 0.75 x $2)		11 250
Work in progress (500 x 0.75 x 0.6 x $2)	(1)	450
		11 700
Note 4 Fixed overhead	(1) (1) (1)	
Completed units(7500 x 0.75 x $9)		50 625
Work in progress(500 x 0.75 x 0.6 x $9)	(1)	2 025
		52 650

	$	
Note 5 Finished units; materials from Process 1 ($384 000 x 7500/8000)	360 000	
added materials	33 750	
labour	67 500	
variable overhead	11 250	
fixed overhead	50 625	
	523 125	(1)
Note 6 Work in progress: materials from Process 1 ($384 000 x 500/8000)	24 000	
added materials	1 800	
labour	2 700	
variable overhead	450	
fixed overhead	2 025	
	30 975	(1)

(b) (i) Cost of one completed unit of Process 1: $384 000/8000 = $48 (1) (OF)
(ii) Cost of one completed unit of Process 2: $523 125/7500 = $69.75 (1) (OF)
(iii) Cost of one unit of work in progress of Process 2: 30 975/500 = $61.95 (1) (OF)

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(c) Completed production 6000 x .09 = 5 400 units (1)
Stock of X: 5400 x 0.75 = 4050 units. (1)
Stock of Y: 1350 units. (1)

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(d) Process 3

	$'000s	
6000 units input (69.75 p.u.)	418 500	(1) (OF)
Additional materials	4 525	(1)
Labour	9 250	
Variable overheads	2 700	
Fixed overheads	5 400	
	440 375	(1)

(1)(OF)
Cost per completed unit: 440 375/5400 = $81.55 (1)

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(e) Stock of X: 4050 units X $81.55 (OF) (OF) Value $330 278 (1)
Stock of Y: 1350 units X $81.55 (OF) (OF) Value $110 092 (1)

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(i) A by-product is one that is produced incidentally in a process and that has a low sales value. (1)

(ii) If the sales value is very low, the processing costs may be reduced by any revenue derived from the sale. (1)

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