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			Creditors		
(1160 × 0.5 × 0.95)	551	**1**	(75 + 680 – 90)	665	**1**
Debtors second month			Rates	18	**1**
(1060 × 0.5)	530	**1**	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**	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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