

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)	<u>720</u>			2
		720	<u>21 200</u>		
	Retained earnings c/f			-50 000	1of [9]

(b)		\$		
	Previous ord share capital		100 000	1
	Retained earnings		<u>-50 000</u>	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	<u>20 000</u>	<u>12 800</u>	<u>7 200</u>	1
	<u>70 000</u>	<u>37 200</u>	32 800	
Current assets				
Inventory		32 995	1	
Trade receivables		<u>17 100</u>	1	
		50 095		
Current liabilities				
Trade payables	19 195 1			
Other payables	13 200 1			
Cash and cash equivalents	<u>500</u> 1	<u>32 895</u>		
			<u>17 200</u>	
			<u>50 000</u>	
Equity				
100,000 ordinary shares of \$0.50 each			<u>50 000</u>	1of [12]
1	1of			

(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	<u>8 800</u>			1
	80 800			1of
IOD	2 100	–1 200	–900	1
Salary	–18 000	12 000	6 000	1
IOC	<u>–27 500</u>	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	<u>–7 600</u>			1
	73 200			1of
IOD	2 100	–1 200	–900	1
Salary	–18 000	12 000	6 000	1
IOC	<u>–18 000</u>	10 000	8 000	1
	39 300	23 580	15 720	1of
		44 380	28 820	
Dividends			5 250	1
Interest on savings			<u>1 000</u>	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	<u>797</u>	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	<u>132</u>	2	(150 – 50 + 32)
	<u>797</u>		

[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)

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

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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	<u>-165</u>		
Cost of sales		<u>665</u>	
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	<u>184</u>	<u>485</u>	
Profit from operations		115	1of
Finance charges		<u>15</u>	1
		100	
Tax		<u>20</u>	1of
Profit for the year		<u>80</u>	

[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	<u>400</u>	<u>120</u>	<u>280</u>	1
	<u>2 025</u>	<u>310</u>	1 715	
Current assets				
Inventory		165		1
Trade receivables		150		1
Prepaid rates and insurance		14		1
Cash and cash equivalents		<u>113</u>		1of
		442		
Current liabilities				
Tax	20			1
Trade payables	<u>90</u>	<u>110</u>		1
			332	
Non-current liabilities				
Debentures			<u>300</u>	1
			<u>1 747</u>	
Ordinary shares of \$0.50 each			850	1
Share premium			220	1
Retained earnings			<u>677</u>	2 (645 + 80 – 48)
			<u>1 747</u>	

[14]