

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2013 series

9706 ACCOUNTING

9706/43

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a) Partners Capital Accounts

	A \$	B \$	C \$		A \$	B \$	C \$
				Bal. b/d	45 000	35 000	27 500 (1)
Goodwill	14 400 (1)	9 600 (1)		Goodwill	12 000 (1)	8 000 (1)	4 000 (1)
Re-valuation	3 750 (1)	2 500 (1)	1 250 (1)				
Loan a/c			30 250 (1)of				
Bal c/d	38 850	30 900					
	<u>57 000</u>	<u>43 000</u>	<u>31 500 (1)of</u>		<u>57 000</u>	<u>43 000</u>	<u>31 500</u>
				Bal. b/d	38 850	30 900 (1)of	

[12]

(b) Income statement and appropriation account for year ending 30 June 2013

	9 months to 31 March 2013		3 months to 30 June 2013	
	\$	\$	\$	\$
Gross profit		238 500		79 500 (1)
Bad debts rec		<u>6 000 (1)</u>		
		244 500		79 500
Wages	112 500		37 500 (1)	
Rent	20 625		6 875 (2)	
Heat and light	9 450		3 150 (2)	
Sundries	2 250		750 (1)	
Loan interest			605 (2)of	
		<u>(144 825)</u>		<u>(48 880)</u>
Net profit		99 675 (1)of		30 620 (1)of
Int. on cap				
A	3 038 (1)of		777 (1)	
B	2 363 (1)of		<u>618 (1)</u>	
C	<u>1 856 (1)of</u>			
		<u>(7 257)</u>		<u>(1 395)</u>
		92 418		29 225
Profit				
A	46 209 (1)of		17 535 (1)of	
B	30 806 (1)of		<u>11 690 (1)of</u>	
C	<u>15 403 (1)of</u>			
		<u>(92 418)</u>		<u>(29 225)</u>
		<u>NIL</u>		<u>NIL</u>

[22]

- (c)** More capital may be invested. (2)
 More knowledge, experience becomes available. (2)
 May offer wider range of services to customers. (2)
 More cover available during absences (sickness, holidays). (2)
 Losses may be shared. (2)

max 6

[6]

[Total: 40]

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- 2 (a) Voronez plc
At 30 June 2012

<i>Ordinary share capital</i>	\$		
Issue of 120 000 ordinary \$1 shares	120 000	(1)	
Bonus issue one share for every four held	<u>30 000</u>	(1)	
	150 000		
Rights issue one share for every six held	<u>25 000</u>	(1)	
Statement of financial position	<u>175 000</u>	(1)OF	
 <i>Preference share capital</i>	 \$		
Issue of 40 000 redeemable preference \$1 shares	<u>40 000</u>	(1)	
Statement of financial position	<u>40 000</u>		
 <i>Share premium</i>	 \$		
Premium on issue of ordinary shares 120 000 @ \$0.10	12 000	(2)	
Premium on issue of preference shares 40 000 @ \$0.15	6 000	(2)	
Premium on rights issue of ordinary shares 25 000 @ \$0.60	<u>15 000</u>	(2)OF	
Statement of financial position	<u>33 000</u>	(1)OF	
 <i>Retained earnings</i>	 \$		
Profit for the year (after preference dividend \$2000)	100 000	(1)	
Dividend on ordinary shares 120 000 @ \$0.10	(12 000)	(2)	
Transfer to ordinary share capital (bonus issue)	<u>(30 000)</u>	(1)	
Statement of financial position	<u>58 000</u>	(1)OF	[17]

- (b) Voronez plc
At 30 June 2013

<i>Ordinary share capital</i>	\$		
Balance at start of year	175 000	(1)OF	
Purchase of own shares	<u>(80 000)</u>	(1)	
Statement of financial position	<u>95 000</u>	(1)of	
 <i>Share premium</i>	 \$		
Balance at start of year	33 000	(1)OF	
 <i>Capital redemption reserve</i>	 \$		
Purchase of own shares	80 000	(1)	
 <i>Retained earnings</i>	 \$		
Balance at start of year	58 000	(1)OF	
Profit for the year	86 000	(1)	
Preference dividend	(2 000)	(1)	
Capital redemption reserve – par value of shares	(80 000)	(2)	
Capital redemption reserve – premium on redemption	<u>(10 000)</u>	(2)	
Statement of financial position	<u>52 000</u>		[12]

- (c) Dividends must be paid from revenue reserves (retained earnings). (1)
No dividend can be paid if no retained earnings (1) or revenue reserves (1).
Dividends may not be paid from share capital (1) or capital reserves (1). [5]

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- (d) (i) A capital redemption reserve is created to protect the creditors of the business (1), to ensure the capital and cash of the company is not taken out of the business (1). [2]
- (ii) The whole of the amount of the redemption is taken from retained earnings (1). This is because no new issues of shares have been made to help fund the redemption (1). [2]
- (iii) The capital redemption reserve may be used to issue bonus shares (1) to existing shareholders (1). [2]

[Total: 40]

3 (a) Budgeted income statement for the year ending 31 May 2014

	\$	\$	
Revenue		58 870	
Opening inventory	4 800		
Ordinary goods purchased	<u>23 770</u> (1)both		
	28 570		
Closing inventory	<u>5 100</u> (1)both		
Cost of sales		<u>23 470</u>	
Gross profit		35 400	
Discount received			
Less:		238 (1)	
Discount allowed	1 177 (1)		
Bad debts	589 (1)		
Rent	10 000 (1)		
Administration costs	10 300 (1)		
Interest	480 (1)		
Insurance	1 850 (1)		
Loss on disposal	500 (1)		
Depreciation			
Fixtures and fittings	2 300 (1)		
Vehicle	<u>7 200</u> (1)		
		<u>34 396</u>	
Budgeted profit for the year		<u>1 242</u> (1)of	[13]

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(b) Budgeted statement of financial position at 31 May 2014

	\$	\$	\$
	Cost	Depreciation	Net book value
Non-current assets			
Fixtures and fittings	23 000	9 400	13 600 (1)of
Vehicle	<u>18 000</u>	<u>7 200</u>	<u>10 800 (1)of</u>
	<u>41 000</u>	<u>16 600</u>	24 400
Current assets			
Inventory		5 100 (1)	
Trade receivables			
11 900 + 58 870 (1)of – 59 700 (1)			
– 1177 (1)of – 589 (1)of		9 304	
Other receivables (insurance)		<u>500 (1)</u>	
		14 904	
Current liabilities			
Trade payables			
6100 + 23 770 (1)of – 20 700 (1)			
– 238 (1)of	8 932		
Other payables (interest)	240 (1)		
Cash and cash equivalents			
(bank)	<u>5 340 (1)</u>	<u>14 512</u>	
Net current assets			<u>392</u>
			24 792
Non-current liabilities			
*Bank loan (6%)			<u>8 000 (2)</u>
			<u>16 792</u>
Capital at 1 June 2013			25 550
Capital introduced			5 000 (1)
Profit for the year			<u>1 242 (1)of</u>
			31 792
Drawings			<u>15 000</u>
			<u>16 792</u>

*Bank 2 marks for correct figure.

1 mark for incorrect figure if it is a balancing figure.

[17]

$$(c) \text{ Trade receivables days} = \frac{9\,304 (1)\text{of}}{58\,870 (1)\text{of}} \times 365 = 57.7 \text{ days}$$

$$+ \text{ Inventory days} = \frac{4\,950 (1)}{23\,470 (1)\text{of}} \times 365 = 77.0 \text{ days}$$

$$- \text{ Trade payables days} = \frac{8\,932 (1)\text{of}}{23\,770 (1)\text{of}} \times 365 = \underline{137.2 \text{ days}}$$

(2.5) days (1)of

[7]

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- (d) Improve credit control for trade receivables/trade payables.
Use factoring.
Reduce inventory levels.
Sell surplus non-current assets (if any).
Take additional bank loan.
Introduce additional capital
Reduce drawings.

Any three × 1 mark

[3]

[Total: 40]