

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

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.

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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

\$	Cost	\$	Depn	\$	N B V
<b>Non-current assets</b>					
Fixtures and fittings	50 000	1	24 400	1	25 600
Delivery vehicle	<u>20 000</u>		<u>12 800</u>		<u>7 200</u>
	<u>70 000</u>		<u>37 200</u>		32 800
<b>Current assets</b>					
Inventory			32 995	1	
Trade receivables			<u>17 100</u>	1	
			50 095		
<b>Current liabilities</b>					
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>
<b>Equity</b>					
100,000 ordinary shares of \$0.50 each					<u>50 000</u>
1		1of			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	<u>8 800</u>			1
	<b>80 800</b>			<b>1of</b>
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
	<u>37 400</u>	<u>22 440</u>	<u>14 960</u>	<b>1of</b>
		<u>43 240</u>	<u>37 560</u>	<b>1of</b> <span style="float: right;">[8]</span>

(ii)	P'ship \$	Ukamaka \$	Chinedu \$	
Original profit	72 000			1
Rent saved	8 800			1
Loan interest	<u>–7 600</u>			1
	<b>73 200</b>			<b>1of</b>
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
	<u>39 300</u>	<u>23 580</u>	<u>15 720</u>	<b>1of</b>
		<u>44 380</u>	28 820	
Dividends			5 250	1
Interest on savings			<u>1 000</u>	1
			<u>35 070</u>	<b>1of</b> <span style="float: right;">[11]</span>

- (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		
<b>Net assets</b>	<u>797</u>	<b>2</b>	(820 – 55 + 32)
<b>Equity</b>			
Ordinary shares	620	<b>1</b>	(600 + 20)
Share premium	27	<b>2</b>	(20 – 5 + 12)
Capital redemption reserve	18	<b>2</b>	(50 – 32)
Retained earnings	<u>132</u>	<b>2</b>	(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	Balance	15
Debtors first month		Creditors	
(1160 × 0.5 × 0.95)	551	(75 + 680 – 90)	665
Debtors second month		Rates	18
(1060 × 0.5)	530	Insurance	30
Sale of vehicles	80	Purchase of vehicle	400
Sale of eqpt	75	Purchase of eqpt	310
Debentures	300	S,d,a expenses	184
Share issue	170	Tax	30
		Dividend	48
		Interest	15
		Balance	113
	<u>1828</u>		<u>1828</u>

[14]

**(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	<b>2</b>
Profit on sale of equipment		5	<b>1</b>
Less expenses			
Discount allowed	29		<b>1</b>
Rates and insurance	42		<b>1</b>
Loss on sale of vehicles	15		<b>1</b>
Depreciation –			
Land and buildings	10		<b>1</b>
Equipment	85		<b>1</b>
Vehicles	120		<b>1</b>
S,d,a expenses	<u>184</u>	<u>485</u>	
Profit from operations		115	<b>1of</b>
Finance charges		<u>15</u>	<b>1</b>
		100	
Tax		<u>20</u>	<b>1of</b>
Profit for the year		<u>80</u>	<b>[12]</b>

**(c)** Forecast Statement of Financial Position at 30 April 2012

	Cost	Dep	NBV	
Non-current assets				
Land and buildings	1 200	60	1 140	<b>1</b>
Equipment	425	130	295	<b>1</b>
Vehicles	<u>400</u>	<u>120</u>	<u>280</u>	<b>1</b>
	<u>2 025</u>	<u>310</u>	1 715	
Current assets				
Inventory		165		<b>1</b>
Trade receivables		150		<b>1</b>
Prepaid rates and insurance		14		<b>1</b>
Cash and cash equivalents		<u>113</u>		<b>1of</b>
		442		
Current liabilities				
Tax	20			<b>1</b>
Trade payables	<u>90</u>	<u>110</u>		<b>1</b>
			332	
Non-current liabilities				
Debentures			<u>300</u>	<b>1</b>
			<u>1 747</u>	
Ordinary shares of \$0.50 each			850	<b>1</b>
Share premium			220	<b>1</b>
Retained earnings			<u>677</u>	<b>2</b> (645 + 80 – 48)
			<u>1 747</u>	<b>[14]</b>