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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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										
	57 000		43 000		31 500	**(1)of**		57 000		43 000		31 500	
							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				6 000	**(1)**				
				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**		
				(144 825)				(48 880)	
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**			618	**(1)**		
	C	1 856	**(1)of**						
				(7 257)				(1 395)	
				92 418				29 225	
Profit									
	A	46 209	**(1)of**			17 535	**(1)of**		
	B	30 806	**(1)of**			11 690	**(1)of**		
	C	15 403	**(1)of**						
				(92 418)				(29 225)	
				NIL				NIL	

[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]

2 (a)

Voronez plc
At 30 June 2012

	$		
Ordinary share capital			
Issue of 120 000 ordinary $1 shares	120 000	**(1)**	
Bonus issue one share for every four held	30 000	**(1)**	
	150 000		
Rights issue one share for every six held	25 000	**(1)**	
Statement of financial position	175 000	**(1)OF**	
Preference share capital	$		
Issue of 40 000 redeemable preference $1 shares	40 000	**(1)**	
Statement of financial position	40 000		
Share premium	$		
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	15 000	**(2)OF**	
Statement of financial position	33 000	**(1)OF**	
Retained earnings	$		
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)	(30 000)	**(1)**	
Statement of financial position	58 000	**(1)OF**	**[17]**

(b)

Voronez plc
At 30 June 2013

	$		
Ordinary share capital			
Balance at start of year	175 000	**(1)OF**	
Purchase of own shares	(80 000)	**(1)**	
Statement of financial position	95 000	**(1)of**	
Share premium	$		
Balance at start of year	33 000	**(1)OF**	
Capital redemption reserve	$		
Purchase of own shares	80 000	**(1)**	
Retained earnings	$		
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	(10 000)	**(2)**	
Statement of financial position	52 000		**[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]**

(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	23 770	**(1)both**			
	28 570				
Closing inventory	5 100	**(1)both**			
Cost of sales			23 470		
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	7 200	**(1)**			
			34 396		
Budgeted profit for the year			1 242	**(1)of**	**[13]**

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

	$		$		$	
Non-current assets	Cost		Depreciation		Net book value	
Fixtures and fittings	23 000		9 400		13 600	**(1)of**
Vehicle	18 000		7 200		10 800	**(1)of**
	41 000		16 600		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)			500	**(1)**		
			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)	5 340	**(1)**	14 512			
Net current assets					392	
					24 792	
Non-current liabilities						
*Bank loan (6%)					8 000	**(2)**
					16 792	
Capital at 1 June 2013					25 550	
Capital introduced					5 000	**(1)**
Profit for the year					1 242	**(1)of**
					31 792	
Drawings					15 000	
					16 792	

***Bank 2 marks for correct figure.**
1 mark for incorrect figure if it is a balancing figure. **[17]**

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

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

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

(2.5) days **(1)of** **[7]**

(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]