

**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
Non-current assets					
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
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>
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
	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
	<u>37 400</u>	<u>22 440</u>	<u>14 960</u>	1of
		<u>43 240</u>	<u>37 560</u>	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
	<u>39 300</u>	<u>23 580</u>	<u>15 720</u>	1of
		<u>44 380</u>	28 820	
Dividends			5 250	1
Interest on savings			<u>1 000</u>	1
			<u>35 070</u>	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]**

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		Tax	30
			Dividend	48
			Interest	15
			Balance	113
	<u>1828</u>			<u>1828</u>

[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	<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]