CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9706 ACCOUNTING

9706/42 Paper 4 (Problem Solving), 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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CAMBRIDGE
International Examinations

1 (a) [Share capital less retained deficit] = 780 (3) / [Share capital] = 1200 (1)
= $0.65 per share **[4]**

(b) Breskens plc
Reduction in ordinary share capital

	$000	
Adjustments to asset values		
Land and buildings (provision for depreciation)	50	(1)
Plant and equipment (provision for depreciation)	80	(1)
Goodwill (impairment)	40	(1)
Investments (impairment)	20	(1)
Inventory (provision for obsolescence)	70	(1)
Trade receivables (bad debts)	40	(1)
Retained earnings written off ($350 (1) + $70 (1))	420	(2)
Reduction in ordinary share capital	720	(1OF)

[10]

(c) **Breskens plc**
Statement of financial position at 1 April 2013

	$000		$000	
Non-current assets				
Property plant and equipment				
Land and buildings	105	(1)		
Plant and equipment	430	(1)		
Motor vehicles	50	(1)		
			585	
Goodwill			20	(1 + 1)
Investments			110	(1)
			715	
Current assets				
Inventories	170	(1)		
Trade and other receivables	380	(1)		
	550			
Current liabilities				
Trade and other payables	635	(1)		
Cash and cash equivalents	150	(1)		
	785			
Net current liabilities			(235)	
Total assets less current liabilities			480	
Equity				
Ordinary share capital (1.2m shares)			480	(2 OF)

[12]

(d) Nominal value of new shares 480 (1of) / 1200 (2) = $0.40 per share (1of) **[4]**

(e) **(i)** Adjusting event (1) goodwill; land and building written down; depreciation; bad debt; etc.
Non-adjusting event (1) scheme of reconstruction

(ii) Any of the above with a reason (1) each × 2 **[2]**

(f) The directors report must include:
Implementing the scheme of reconstruction (2)
The impairment review requiring write downs in asset values (2)
The directors believe the company is now trading at a profit (2) **[6]**

[Total: 40]

2 **(a)** Partners' Capital accounts

	A		B		C				A		B		C	
	$		$		$				$		$		$	
								Bal. b/d	45 000		20 000	**1**		**1**
								Cash					10 000	
Goodwill	9 000	**1**	6 000	**1**	3 000	**1**	**1**	Goodwill	10 800	**1**	7 200	**1**		
Bal c/d	46 800		21 200		7 000	**1cf**								
	55 800		27 200		10 000				55 800		27 200		10 000	
								Bal. b/d	46 800		21 200		7 000	**1 of**

[9]

(b) Trading Account

	$		$	
Revenue			340 650	**1**
Less cost of sales				
Opening inventories	23 850	**1**		
Purchases	265 760	**1**		
	289 610			
Closing inventories	27 100	**3**	(262 510)	
Gross Profit			78 140	**1 of**

Closing inventories 27 600 **1** – 500 **1** = 27 100 **1 of**

[7]

(c)

Income statement and appropriation account for year ending 30 June 2012

	9 months to 31 March 2012			3 months to 30 June 2012		
	$	$		$	$	
Gross profit		58 605	**1 of**		19 535	
Less:						
General Expenses	36 000			12 000		**3**
Depreciation	1 920			640		**3**
Bad debt	1 350					
		(39 270)	**1**		(12 640)	
Net profit		19 335			6 895	**1 of**
Int. on cap						
A	2 700		**1**	1 170		
B	1 200		**1**	530		
C				175		
		(3 900)			(1 875)	
		15 435			5 020	
Salary						
A				2 000		**1**
B				1 500		
C				1 000		
					(4 500)	
					520	
Profit						
A	9 261		**1 of**	260		**1 of**
B	6 174		**1 of**	173		**1 of**
C				87		**1 of**
		(15 435)			(520)	
		NIL			NIL	

General expenses $47 590 **1** + $410 **1** = $48 000 split $36 000 : $12 000 **1 of**

Depreciation $25 000 – $12 200 = $12 800 **1** × 20% = $2560 **1** split $1920 : $640

[17]

(d) The Act states that profits should be shared equally. **[2]**

(e) Income now is $175 + $1000 + $87 = $1262 × 4 = $5048 per annum **2 of**
Income previously is $6000 + $600 = $6600 **2 of**
Coral had a better income previously **1 of** **[5]**

[Total: 40]

3 (a) (i)

	Jan		Feb		March		April	
Sales (units)	5 000		5 200		5 600		5 800	
Closing inventory	1 300		1 400		1 300		1 000	
	6 300		6 600		6 900		6 800	
Less opening inventory	1 250		1 300		1 400		1 300	
Purchases (units)	5 050	**(1)**	5 300	**(1of)**	5 500	**(1of)**	5 500	**(1of)**
Purchases (value)	$20 200	**(1)**	$21 200	**(1of)**	$23 100	**(1of)**	$23 100	**(1of)**

[8]

(ii)

	Jan		Feb		March		April	
	$		$		$		$	
Trade receivables b/d	73 000	**(1)**	74 500		77 000		76 400	
Credit sales	50 000		52 000		50 400		55 100	**(1) all**
	123 000		126 500		127 400		131 500	
Receipts								
50%	24 000		24 500		25 000		26 000	
48%	23 520		24 000		24 960		24 192	
	47 520	**(1)**	48 500	**(1)**	49 960	**(1)**	50 192	**(1)**
Discount allowed	980	**(1)**	1 000	**(1)**	1 040	**(1)**	1 008	**(1)**
Trade receivables c/f	74 500	**(1of)**	77 000	**(1of)**	76 400	**(1of)**	80 300	**(1of)**

[14]

(iii)

	Jan		Feb		March		April	
	$		$		$		$	
Trade payables b/d	20 000	**(1)**	20 200		21 200		23 100	
Credit purchases	20 200		21 200		23 100		23 100	**(1of) all**
	40 200		41 400		44 300		46 200	
Cash paid	19 000	}(1)	19 190	}(1)	20140	}(1)	21 945	}(1)
Discount received	1 000		1 010		1 060		1 155	
	20 000		20 200		21 200		23 100	
Trade payables c/f	20 200	**(1)**	21 200	**(1of)**	23 100	**(1of)**	23 100	**(1of)**

[10]

(b)

	$	
Current assets		
Inventory (1000 × 4.2)	4 200	**(1of)**
Trade receivables	80 300	**(1of)**
	84 500	
Current liabilities		
Trade payables	23 100	**(1of)**

[3]

(c)

	$
Sales (5800 × $9.5)	55 100
VC	24 900
FC	<u>16 700</u>
Profit	<u>13 500</u>

(i)

$\frac{\$13\,500\ \mathbf{(1)}}{\$55\,100}$ × 100 = 24.5% **(1of)** **[2]**

(ii) $9.50 × (100 – 24.5%) = $7.17 **(1of)** **[1]**

(iii)

$\frac{\$13\,500\ \mathbf{(1of)}}{\$24\,900}$ × 100 = 54.22% **(1of)** **[2]**

[Total: 40]