CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2002

GCE ADVANCED LEVEL

# MARK SCHEME

MAXIMUM MARK : 120

SYLLABUS/COMPONENT : 9706/04

ACCOUNTING

UNIVERSITY of CAMBRIDGE
Local Examinations Syndicate

Question 1 (a)

Istaimy plc
Balance Sheet at 1 May 2001 after redemption of the preference share capital

| | $000 | |
|---|---|---|
| Tangible fixed assets | 1 300 | |
| Net current assets (note 1) | 475 | (3) |
| | 1 775 | |
| | | |
| Ordinary share capital (note 2) | 1 300 | (2) |
| Capital Redemption Reserve (note 3) | 200 | (3) |
| Share Premium (note 4) | 165 | (4) |
| Profit and Loss Account | 110 | (3) |
| | 1 775 | |

15

Allocation of marks

| | | $000 | |
|---|---|---|---|
| Note 1. Net current assets: | | | |
| Before new issue of shares | | 740 | (1) |
| Proceeds of issue of ordinary shares | | 125 | (1) |
| Redemption of preference shares | | (390) | (1) |
| | | 475 | |
| Note 2 Ordinary share capital before new issue | | 1 200 | (1) |
| Add new issue | | 100 | (1) |
| | | 1 300 | |
| Note 3 Capital Redemption Reserve | | | |
| Nominal value of new issue of shares | | 100 | (1) |
| Nominal value of preference shares | | (300) | (1) |
| Reserve required | | 200 | (1) |
| Note 4 Share Premium Account | | | |
| Before new issue of shares | | 200 | (1) |
| Add premium on new issue | | 25 | (1) |
| Premium of redemption of preference shares: | | | |
| 300 000 x $0.30 | 90 000 | | |
| But limited to 300 000 x $0.20 | | (60) | (1) |
| | | 165 | (1) |
| Note 5 Profit and Loss Account | | | |
| Before redemption of preference shares | | 340 | (1) |
| Deduct transfer to C.R.R. (see note 3) | | (200) | (1) |
| excess premium on redemption (see note 4) | | (30) | (1) |
| | | 110 | |

(b)

Istaimy plc
Journal

| | Dr. $ | | Cr. $ | |
| --- | --- | --- | --- | --- |
| Tangible fixed assets (note 1) | 834 000 | (4) | | |
| Stock | 30 000 | (1) | | |
| Debtors (note 2) | 72 000 | (2) | | |
| Bank | 80 000 | (1) | | |
| Creditors (note 3) | | | 69 400 | (3) |
| 10 per cent Debenture Stock | | | 80 000 | (1) |
| 8 per cent Preference Share capital (note 4) | | | 62 700 | (2) |
| Ordinary share capital (note 5) | | | 627 000 | (3) |
| Share Premium (note 6) | | | 169 290 | (2) |
| Capital Reserve (Negative goodwill note 7) | | | 7 610 | (4) |
| | 1 016 000 | | 1 016 000 | |

Purchase of Erchetai plc for $938 990 (1) the consideration being satisfied by the issue of $80 000 10 per cent debenture stock 2008/10, 62 700 8 per cent preference shares of $1 at $1.20 and 62 700 ordinary shares of $10 at $12.50. (1)

25

Allocation of marks

Note 1.

| Tangible fixed assets: | $ | |
| --- | --- | --- |
| Per balance sheet at 30 April 2002 | 928 000 | (1) |
| Reduction in value of freehold buildings | (128 000) | (1) |
| Add Outstanding instalments on machine | 40 000 | (1) |
| Deduct additional depreciation on machine | (6 000) | (1) |
| | 834 000 | |

Note 2. Debtors:

| | | |
| --- | --- | --- |
| Per balance sheet at 30 April 2002 | 76 000 | (1) |
| Less bad debt ($5000 - $1000) | (4 000) | (1) |
| | 72 000 | |

Note 3. Creditors

| | | |
| --- | --- | --- |
| Per balance sheet at 30 April 2002 | 29 000 | (1) |
| Add: instalments on machine | 40 000 | (1) |
| 1 month's interest on outstanding instalments | 400 | (1) |
| | 69 400 | |

Note 4. Preference share capital $\overset{(1)}{\overline{\$1\,045\,000/50}}$ X 3= $62 700 (1)

Note 5 Ordinary share capital $\overset{(1)}{\$1\,045\,000/50}$ x $\overset{(1)}{3}$ x $\overset{(1)}{\$10}$ = $627 000

Note 6. Share Premium

| | | |
| --- | --- | --- |
| Premium on 62 700 preference shares at $0.20 per share | 12 540 | (1) |
| Premium on 62 700 ordinary shares at $2.50 per share | 156 750 | (1) |
| | 169 290 | |

Note 7. Capital Reserve:

| | | |
|---|---|---|
| Tangible fixed and current assets acquired at valuation | 1 016 000 | (1) |
| Less creditors | 69 400 | (1) |
| Net asset value | 946 600 | |
| Purchase consideration (80 000 + 75 240 + 783 750) | 938 990 | (1) |
| Capital reserve - negative goodwill | 7 610 | (1) |

**Q2**

Budgeted Balance Sheet of Prophile plc at 31 October 2003

| | At cost $'000s | At valuation $'000s | Depn. $'000s | NBV $'000s | Notes |
|---|---|---|---|---|---|
| Tangible fixed assets | | | | | |
| Freehold premises (note 1) | | 1 000 (2) | - (1) | 1 000 (1) OF | 1 |
| Plant and machinery | 1 380 (3) | | 580 (3) | 800 (1) OF | 2 |
| | | | | 1 800 | |
| Current assets | | | | | |
| Stock | | | 115 (3) | | 3 |
| Debtors | | | 97 (3) | | 4 |
| Cash at bank | | | 123 (2) | | 5 |
| | | | 335 | | |
| Creditors: amounts due within one year | | | | | |
| Trade creditors | | 47 (3) | | | 6 |
| Dividends | | 50 (1) | 97 | 238 | 7 |
| | | | | 2 038 | |
| Creditors: amounts due after more than one year | | | | | |
| 10% debenture stock 2002/2005 (must be deducted) | | | | 200 (2) | 8 |
| | | | | 1 838 | |
| Share capital and reserves | | | | | |
| Ordinary shares of $1 | | | | 1 000 (2) | 9 |
| Share premium account | | | | 200 (4) | 10 |
| Revaluation Reserve | | | | 240 (2) | 11 |
| General Reserve | | | | 160 (3) | 12 |
| Profit and Loss Account | | | | 238 (4) | 13 |
| | | | | 1 838 | |

40

Allocation of marks in Question 2

| 1. Freehold premises | Cost $000 | Depreciation $000 | NBV $000 |
|---|---|---|---|
| At 31.10.2002 | 850 (1) | (90) | 760 |
| Revaluation | 150 (1) | 90 | 240 |
| At 31.10.2003 | 1000 | - (1) | 1000 (1) |

| 2. Plant and machinery | Cost $000 | Depreciation $000 | NBV $000 |
|---|---|---|---|
| At 31.10.2002 | 1 197 | (469) | 728 |
| Additions | 293 (1) | | 293 |
| Depreciation | | (200) (1) | (200) |
| Disposals | (110) (1) | 89 (1) | (21) |
| At 31.10 2003 | 1 380 (1) | 580 (1) | (800) (1) |

The following in $000:

The following in $000:

3. Stock $(191 – 76) = $115 (1)

4. Debtors $(82 + 15) = $97 (1)

5. Cash at bank $(25 + 98) = $123

6. Creditors $(73 – 26) = $47 (1)

7. Dividends: ordinary $(40 + 30 – 70 + 50(proposed)) = $50 (1)

8. Debentures $(300 - 100) = $200

9. Ordinary shares $(850 + 150) = $1000

| | | |
|---|---|---|
| 10. Share Premium account at 31.10.2002 | $150 | (1) |
| premium on share issue | 60 | (1) |
| premium on redemption of preference shares (part) | (10) | (1) |
| At 31.10.2003 | $ 200 | (1) |

11. Revaluation Reserve $240 (see 1. above) (2)

12. General reserve $(100 +60) = $160 (1)

| 13. Profit and Loss Account | $'000s | |
|---|---|---|
| At 31.10.2002 | 173 | (1) |
| Less surplus of premium on redemption of preference shares not charged to Share Premium account | (10) | (1) |
| Retained profit for the year | 75 | (1) |
| At 31.10. 2003 | 238 | (1) |

Question 3A
(a)

Process 1

| | $'000s | | | $'000s | |
|---|---|---|---|---|---|
| Materials | 40 000 | (1) | Transferred to Process 2 | 384 000 | (1) OF |
| Direct labour | 224 000 | (1) | | | |
| Variable overhead | 48 000 | (1) | | | |
| Fixed overhead | 72 000 | (1) | | | |
| | 384 000 | | | 384 000 | |

Process 2

| | | | | | |
|---|---|---|---|---|---|
| Materials from Process 1 | 384 000 | (1) OF | Transferred to Process 3 | | |
| Added materials (note 1) | 35 550 | (4) | (note 5) | 523 125 | (1) OFs if workings shown |
| Direct labour (note 2) | 70 200 | (4) | Work in progress (note6) | | |
| Variable overhead (note 3) | 11 700 | (4) | c/d | 30 975 | (1) |
| Fixed overhead (note 4) | 52 650 | (4) | | | |
| | 554 100 | | | 554 100 | |
| Work in progress b/d | 30 975 | | | | |

24

Note 1 Additional materials (1) (1) (1)

| | $ |
|---|---|
| Completed units (7500 x 3 x $1.5) | 33 750 |
| Work in progress(500 x 3 x 0.8 x $1.5) (1) | 1 800 |
| | 35 550 |

Note 2 Direct labour (1) (1) (1)

| | |
|---|---|
| Completed units(7500 x 0.75 x $12) | 67 500 |
| Work in progress(500 x 0.75 x 0.6 x $12 (1) | 2 700 |
| | 70 200 |

Note 3 Variable overhead (1) (1) (1)

| | |
|---|---|
| Completed units(7500 x 0.75 x $2) | 11 250 |
| Work in progress (500 x 0.75 x 0.6 x $2) (1) | 450 |
| | 11 700 |

Note 4 Fixed overhead (1) (1) (1)

| | |
|---|---|
| Completed units(7500 x 0.75 x $9) | 50 625 |
| Work in progress(500 x 0.75 x 0.6 x $9) (1) | 2 025 |
| | 52 650 |

Note 5 Finished units;

| | $ |
|---|---|
| materials from Process 1 ($384 000 x 7500/8000) | 360 000 |
| added materials | 33 750 |
| labour | 67 500 |
| variable overhead | 11 250 |
| fixed overhead | 50 625 |
| | 523 125 (1) |

Note 6 Work in progress:

| | |
|---|---|
| materials from Process 1($384 000 x 500/8000) | 24 000 |
| added materials | 1 800 |
| labour | 2 700 |
| variable overhead | 450 |
| fixed overhead | 2 025 |
| | 30 975 (1) |

(b) (i) Cost of one completed unit of Process 1: (OF) $384 000/8000 = $48 (1)
(ii) Cost of one completed unit of Process 2: (OF) $523 125/7500 = $69.75 (1)
(iii) Cost of one unit of work in progress of Process 2: 30 975/500 (OF) = $61.95 (1) — 3

(c) Completed production 6000 x .09 = 5 400 units (1)
Stock of X: 5400 x 0.75 = 4050 units. (1)
Stock of Y: 1350 units. (1) — 3

(d) Process 3

| | $'000s | |
|---|---|---|
| 6000 units input (69.75 p.u.) | 418 500 | (1) (OF) |
| Additional materials | 4 525 | |
| Labour | 9 250 | (1) |
| Variable overheads | 2 700 | |
| Fixed overheads | 5 400 | |
| | 440 375 | (1) |

Cost per completed unit: 440 375/5400 = $81.55 (1) (1)(OF) — 5

(e) Stock of X: 4050 units X $81.55 (OF) (OF) Value $330 278 (1)
Stock of Y: 1350 units X $81.55 (OF) (OF) Value $110 092 (1) — 2

i) A by-product is one that is produced incidentally (1) in a process and that has a low sales value. (1)

(ii) If the sales value is very low, the processing costs may be reduced by any revenue derived from the sale. (1)

2

1