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

\[
\begin{array}{cccccc}
 & A & B & C & A & B & C \\
$ & $ & $ & $ & $ & $ & $ \\
\text{Bal. b/d} & 45 000 & 35 000 & 27 500 & 45 000 & 35 000 & 27 500 \\
\text{Goodwill} & 12 000 (1) & 8 000 (1) & 4 000 (1) & 12 000 (1) & 8 000 (1) & 4 000 (1) \\
\text{Re-valuation} & 3 750 (1) & 2 500 (1) & 1 250 (1) & 3 750 (1) & 2 500 (1) & 1 250 (1) \\
\text{Loan a/c} & 30 250 (1) & 30 250 (1) & 30 250 (1) & 30 250 (1) & 30 250 (1) & 30 250 (1) \\
\text{Bal. c/d} & 38 850 & 30 900 & 57 000 & 38 850 & 30 900 & 57 000 \\
\end{array}
\]

[12]

(b) Income statement and appropriation account for year ending 30 June 2013

\[
\begin{array}{ccc}
\text{9 months to 31 March 2013} & \text{3 months to 30 June 2013} \\
\text{Gross profit} & 238 500 & 79 500 (1) \\
\text{Bad debts rec} & 6 000 (1) & 6 000 (1) \\
\text{Net profit} & 99 675 (1) & 30 620 (1) \\
\text{Int. on cap} & & \\
\text{A} & 3 038 (1) & 777 (1) \\
\text{B} & 2 363 (1) & 618 (1) \\
\text{C} & 1 856 (1) & (7 257) (1) \\
\text{Net profit} & 92 418 & 29 225 \\
\text{Profit} & & \\
\text{A} & 46 209 (1) & 17 535 (1) \\
\text{B} & 30 806 (1) & 11 690 (1) \\
\text{C} & 15 403 (1) & (92 418) (1) \\
\text{Nil} & & (29 225) (1) \\
\end{array}
\]

[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

[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)
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 $2,000) 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

Balance at start of year $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

<table>
<thead>
<tr>
<th></th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>58 870</td>
<td></td>
</tr>
<tr>
<td>Opening inventory</td>
<td></td>
<td>4 800</td>
</tr>
<tr>
<td>Ordinary goods purchased</td>
<td>23 770</td>
<td>(1)both</td>
</tr>
<tr>
<td>Closing inventory</td>
<td></td>
<td>5 100</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>23 470</td>
<td></td>
</tr>
<tr>
<td>Gross profit</td>
<td>35 400</td>
<td></td>
</tr>
<tr>
<td>Discount received</td>
<td></td>
<td>238</td>
</tr>
<tr>
<td>Discount allowed</td>
<td></td>
<td>1 177</td>
</tr>
<tr>
<td>Bad debts</td>
<td>589</td>
<td>(1)</td>
</tr>
<tr>
<td>Rent</td>
<td></td>
<td>10 000</td>
</tr>
<tr>
<td>Administration costs</td>
<td></td>
<td>10 300</td>
</tr>
<tr>
<td>Interest</td>
<td></td>
<td>480</td>
</tr>
<tr>
<td>Insurance</td>
<td></td>
<td>1 850</td>
</tr>
<tr>
<td>Loss on disposal</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td>Depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixtures and fittings</td>
<td></td>
<td>2 300</td>
</tr>
<tr>
<td>Vehicle</td>
<td></td>
<td>7 200</td>
</tr>
<tr>
<td></td>
<td>34 396</td>
<td></td>
</tr>
<tr>
<td>Budgeted profit for the year</td>
<td>1 242</td>
<td>(1)of</td>
</tr>
</tbody>
</table>

[13]
(b) Budgeted statement of financial position at 31 May 2014

<table>
<thead>
<tr>
<th>Non-current assets</th>
<th>$</th>
<th>$</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixtures and fittings</td>
<td>23 000</td>
<td>9 400</td>
<td>13 600</td>
</tr>
<tr>
<td>Vehicle</td>
<td>18 000</td>
<td>7 200</td>
<td>10 800</td>
</tr>
<tr>
<td></td>
<td>41 000</td>
<td>16 600</td>
<td>24 400</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current assets</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory</td>
<td>5 100</td>
<td>5 100</td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td>11 900 + 58 870 (1)of – 59 700 (1)</td>
<td>9 304</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– 1177 (1)of – 589 (1)of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other receivables (insurance)</td>
<td>500 (1)</td>
<td>500 (1)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>6100 + 23 770 (1)of – 20 700 (1)</td>
<td>8 932</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– 238 (1)of</td>
<td>8 932</td>
<td></td>
</tr>
<tr>
<td>Other payables (interest)</td>
<td>240 (1)</td>
<td>240 (1)</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents (bank)</td>
<td>5 340 (1)</td>
<td>5 340 (1)</td>
<td>14 512</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-current liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>*Bank loan (6%)</td>
<td>8 000</td>
<td>8 000</td>
<td>16 792</td>
</tr>
</tbody>
</table>

Capital at 1 June 2013
Capital introduced 5 000 (1)
Profit for the year 1 242 (1)of
Drawings 15 000

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

(c) Trade receivables days = \( \frac{9 304 (1)of}{58 870 (1)of} \times 365 = 57.7 \) days

+ Inventory days = \( \frac{4 950 (1)}{23 470 (1)of} \times 365 = 77.0 \) days

– Trade payables days = \( \frac{8 932 (1)of}{23 770 (1)of} \times 365 = 137.2 \) days

(2.5) days (1)of

© Cambridge International Examinations 2013
(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 \( \times 1 \text{ mark} \) \[3\]

[Total: 40]