# MARK SCHEME for the May/June 2011 question paper

# for the guidance of teachers

# 9706 ACCOUNTING

9706/43          Paper 4 (Problem Solving (Supplement)),
maximum raw mark 120

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**UNIVERSITY of CAMBRIDGE**
International Examinations

**1 (a)**

Frog Log plc
Statement of Financial Position at 30 April 2011

$000    $000    $000

**Non-current assets**

| | | | | |
|---|---|---|---|---|
| Premises | | 525 | **2** | 530 **(1)** – 5 **(1)** |
| Other non-current assets | | <u>1 650</u> | **4** | 2 012**(1)** – 270**(1)** + 20**(1)** |
| | | 2 175 | | – 112**(1)** |
| **Current assets** | 1 610 | | **1** | |

**Current liabilities**

| | | | | |
|---|---|---|---|---|
| Convertible loan stock 2011 | 100 | | | **1 + 1** for position |
| Trade and other payables | <u>545</u> | | **7** | |
| | | 645 | | |
| | | <u>965</u> | | |
| | | 3 140 | | |

**Non-current liabilities**

| | | | | |
|---|---|---|---|---|
| Debentures | | <u>200</u> | **1** | |
| | | <u>2 940</u> | | |

**Equity**

| | | | | |
|---|---|---|---|---|
| Ordinary shares | | 1 050 | **2** | 1 000 + 50 = 1050 |
| Share premium | | 850 | **2** | 750 + 100 = 850 |
| Revaluation reserve | | 280 | **2** | |
| Capital redemption reserve | | 100 | **2** | |
| General reserve | | 130 | **1** | |
| Retained earnings | | <u>530</u> | **6** | |
| | | <u>2 940</u> | | |

Trade and other payables
983 – 110 + 170 + 117 – 95 = 1 065 – 1 610 = (545)
  **1**    **1**    **1**    **1**    **1**         **1**     **1of**

Retained earnings
615 – 110 + 170 – 50 – 95 = 530
  **1**    **1**    **1**   **1**   **1**    **1of**                                **[32]**

**(b)**

| | | |
|---|---|---|
| Share premium | capital reserve | **1** |
| Revaluation reserve | capital reserve | **1** |
| CRR | capital reserve | **1** |
| General reserve | revenue reserve | **1** |
| Retained earnings | revenue reserve | **1** |

                                                                 **[5]**

**(c)** When the market value of the share is higher than the price given in their option to
convert                                                                     **2**
In this case when market value is higher than $3 a share                    **1**   **[3]**

                                                                                    **[40]**

**2 (a)** Capital accounts

| | P $ | | R $ | | | P $ | R $ | |
|---|---|---|---|---|---|---|---|---|
| Goodwill | 15 000 | **1** | 10 000 | **1** | Balance b/d | 150 000 | 90 000 | **1*** |
| | | | | | Goodwill | 12 500 | 12 500 | **1*** |
| Balance c/d | 182 500 | | 127 500 | | Premises | 35 000 | 35 000 | **1*** |
| | 197 500 | | 137 500 | | | 197 500 | 137 500 | |
| | | | | | Balance b/d | 182 500 | 127 500 | **1of** [6] |

**(b)** Net profit = (26 350 + 6 550) – (8 500 – 2 100) + (21 000 + 18 500) = 66 000

        **1**            **1**          **1**       **1**       **[4]**

**(c)**

| | | 6 months to 30 June $ | | 6 months to 31 Dec $ | | |
|---|---|---|---|---|---|---|
| Net profit | | 33 000 | | 33 000 | **1of*** | |
| Interest on drawings | P | 820 **1** | | 1700 **1** | | |
| | R | 720 **1** | 1 540 | 1500 **1** | 3 200 | |
| | | | 34 540 | | 36 200 | |
| Salaries | P | (5 000) **1** | | (12 000) **1** | | |
| | R | (2 000) **1** | (7 000) | (9 000) **1** | (21 000) | |
| IOC | P | (7 500) **1** | | (9 125) **1of** | | |
| | R | (4 500) **1** | (12 000) | (6 375) **1of** | (15 500) | |
| | | | 15 540 | | (300) | |
| Share of profit | P | 7 770 **1of** | | (180) **1of** | | |
| | R | 7 770 **1of** | 15 540 | (120) **1of** | (300) | **[17]** |

**(d)** Current accounts

| | Poppy $ | | Rose $ | |
|---|---|---|---|---|
| Balance b/d | 8 500 | | (2 100) | **1*** |
| Drawings | (21 000) | | (18 500) | **1*** |
| IOD | (2 520) | | (2 220) | **1*** |
| Salaries | 17 000 | **1of** | 11 000 | **1of** |
| IOC | 16 625 | **1of** | 10 875 | **1of** |
| Share of profit | 7 590 | **1of** | 7 650 | **1of** |
| Balance c/d | 26 195 | **1of** | 6 705 | **1of** [11] |

**(e)** Years of inflation had made their salaries unrealistic.
Change in balance of workload between partners
Other reasonable answer                **1 × 2**           **[2]**

NB 1* means one mark for both                      **[40]**

**3 (a)** Production budget

| | Jul | | Aug | | Sep | | Oct | | Nov | | Dec | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Opening inventory | 100 | | 250 | | 250 | | 200 | | 200 | | 100 | |
| Production (units) | 950 | **1** | 1 050 | **1** | 1 350 | **1** | 1 100 | **1** | 850 | **1** | 850 | **1** |
| Sales | −800 | | −1 050 | | −1 400 | | −1 100 | | −950 | | −850 | |
| Closing inventory | 250 | | 250 | | 200 | | 200 | | 100 | | 100 | **[6]** |

**(b)** Raw materials purchasing budget

| | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| | | | | 1, | | |
| Production (units) | 950 | 1 050 | 1 350 | 100 | 850 | 850 |
| Price/kg | 4 | 4 | 4.5 | 4.5 | 4.5 | 5 |
| No of kgs | 2 | 2 | 2 | 2 | 2 | 2 |
| Cost in $ | 7 600 **1of** | 8 400 **1of** | 12 150 **1of** | 9 900 **1of** | 7 650 **1of** | 8 500 **1of** |

**[6]**

**(c)** $76 000 + $199 500 = $275 500

    **1**        **1**                               **[2]**

**(d)** Trade receivables budget

| | | Sep $ | | Oct $ | | Nov $ | | Dec $ | |
|---|---|---|---|---|---|---|---|---|---|
| Opening balance | | 275 500 | **1of** | 365 750 | | 353 000 | | 300 000 | |
| Sales | | 266 000 | **1** | 220 000 | **1** | 190 000 | **1** | 170 000 | **1** |
| | | 541 500 | | 585 750 | | 543 000 | | 470 000 | |
| Receipts | Month 1 | 95 760 | **1** | 127 680 | **1** | 105 600 | **1** | 91 200 | **1** |
| | Month 2 | 76 000 | **1** | 99 750 | **1** | 133 000 | **1** | 110 000 | **1** |
| Discount | | 3 990 | **1** | 5 320 | **1** | 4 400 | **1** | 3 800 | **1** |
| Closing balance | | 365 750 | **1of** | 353 000 | **1of** | 300 000 | **1of** | 265 000 | **1of** **[21]** |

**(e)** Formalise business plans
Bring together plans for different departments
Control of cost (standard for comparison)
Predict shortages of cash/labour/materials
Communicate targets
Forces management to consider the future

                                 **Any three × 1 mark**                         **[3]**

**(f) (i)** Depreciation                        **1**
         Increase in PDD

   **(ii)** Loan repayment
         Purchase of non-current (fixed) asset
         Any acceptable answer           **1**                       **[2]**

                                                                      **[40]**