**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Advanced Level**

# MARK SCHEME for the May/June 2014 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.

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Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

**1 (a)** Rezwan Limited
Calculation of net assets acquired on 1 October 2013

| | Nimra | Adjust | Value | |
|---|---|---|---|---|
| | $ | $ | $ | |
| Non-current assets | | | | |
| Land and buildings | 110 000 | 60 000 | 170 000 | **(1)** |
| Plant and equipment | 76 500 | (8 500) | 68 000 | **(1)** |
| | | | 238 000 | |
| Current assets | | | | |
| Inventory | 21 000 | (3 150) | 17 850 | **(1)** |
| Trade receivables | 34 000 | (3 400) | 30 600 | **(1)** |
| Cash and cash equivalents | | | 0 | |
| | | | 48 450 | |
| Current liabilities | | | | |
| Trade payables | 41 000 | | 41 000 | **(1)** |
| Net current assets | | | 7 450 | |
| Total assets | | | 245 450 | **(1 of)** |

**[6]**

**(b)** Consideration = 5 × average profit
= 5 × (58 000 + 54 000)/2
= $280 000 **(2)** **[2]**

$5 \times \frac{112\,000}{2}$ **(1)** = 280 000 **(1 of)**

**(c)** Consideration in shares = $280 000 **(1 of)** – $100 000 **(1)**
= $180 000

Number of shares at $1.50 = $\frac{\$180\,000}{\$1.50}$ **(1)** = 120 000 **(1 of)** **[4]**

**(d)**

Rezwan Limited

Statement of financial position at 1 October 2013

| | | $ | $ | |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Land and buildings | (120 000 + 170 000) | | 290 000 | **(1)** |
| Plant and equipment | ( 60 000 + 68 000) | | 128 000 | **(1)** |
| | | | 418 000 | |
| **Intangible asset** | | | | |
| Goodwill | (280 000 **(1 of)** – 245 450 **(1 of)**) | | 34 550 | |
| | | | 452 550 | |
| **Current assets** | | | | |
| Inventory | (45 000 + 17 850) | 62 850 | | **(1)** |
| Trade receivables | (24 000 + 30 600) | 54 600 | | **(1)** |
| Cash and cash equivalents | (132 000 **(1)** – 100 000) | 32 000 | **(1 of)** | |
| | | | 149 450 | |
| **Total assets** | | | 602 000 | |
| **Equity** | | | | |
| Ordinary shares of $1 each | (200 000 **(1)** + 120 000 **(1 of)**) | | 320 000 | |
| Share premium | ( 20 000 **(1)** + 60 000 **(1 of)**) | | 80 000 | |
| Retained earnings | | | 110 000 | **(1)** |
| | | | 510 000 | |
| **Current liabilities** | | | | |
| Trade payables | (51 000 + 41 000) | | 92 000 | **(1)** |
| | | | 602 000 | |

**[14]**

**(e)** Rezwan Limited pays 14% in excess of the net book value **(1 of)**
Goodwill is $280 000 – $245 450 = $34 550 **(1 of)**
Goodwill is included in Rezwan's statement of financial position after acquisition **(1)**
Rezwan is paying a substantial amount in excess of the statement of financial position value of the land and buildings **(1)**
Rezwan Limited is paying for the reputation **(1)** location **(1)** future profits **(1)** customer base **(1)**

one mark per valid point – **[Max 6]**

**(f)** Under IAS 38 (Intangible assets), Rezwan should identify the useful life of the goodwill **(1)** acquired from Nimra. Rezwan must then amortise the goodwill on the straight line basis **(1)** over this useful life and charge the annual amount to its Income Statement **(1).** The amortisation period should be reviewed annually and changes made in the amortisation in line with this review **(1).**

Under IAS 36 (Impairment of assets) each year Rezwan should also compare the carrying value of the goodwill (i.e. its net book value after amortisation) **(1)** with its recoverable amount (its value in use) **(1)** and if the carrying value exceeds the recoverable amount show the impairment loss **(1)** as an additional expense in its income statement **(1).**

**[8]**

**[Total: 40]**

**2 (a)** Partners' capital Alc

| | C | A | B | | C | A | B |
|---|---|---|---|---|---|---|---|
| Goodwill | 10 000 **(1)** | 5 000 **(1)** | 5 000 **(1)** | Bal b/d | 64 000 **(1)** | 96 000 **(1)** | 45 000 **(1)** |
| | | | | Adjustment | 4 800 **(1)** | 3 200 **(1)** | |
| Bal c/d | 66 000 | 99 000 | 48 000 | Goodwill | 7 200 **(1)** | 4 800 **(1)** | 8 000 **(1)** |
| | 76 000 | 104 000 | 53 000 | | 76 000 | 104 000 | 53 000 |
| | | | | Bal b/d | 66 000 | 99 000 | 48 000 |
| | | | | | | | **(1) of row** |

**[12]**

**(b)** New Business

Statement of financial position at 1 July 2012

| | | $ | |
|---|---|---|---|
| **Non-current assets** | | | |
| Land and buildings | (120 000 + 30 000) | 150 000 | **(1)** |
| Plant and equipment | ((35 000 – 7000) **(1)** + 12 000 **(1)**) | 40 000 | **(2)** |
| | | 190 000 | |
| **Net current assets** | (25 000 – 5 000) **(1)** + 3000 **(1)** | 23 000 | **(2)** |
| **Total assets less current liabilities** | | 213 000 | |
| | | | |
| **Capital accounts** | | | |
| Clemens | | 66 000 | **(1 of)** |
| August | | 99 000 | **(1 of)** |
| Bleeker | | 48 000 | **(1 of)** |
| | | 213 000 | |

**[8]**

**(c)**

| | Clemens $ | August $ | Bleeker $ | |
|---|---|---|---|---|
| Balances on capital accounts at 1.7.12 | 66 000 | 99 000 | 48 000 | **(1 of)** |
| Profit for the year to 30.6.13 | 160 000 | 80 000 | 80 000 | **(1)** |
| Drawings | (138 000) | (47 000) | (68 000) | **(1)** |
| Balances at 30.6.13 | 88 000 | 132 000 | 60 000 | **(3) of** |

**[6]**

**(d)**

| | | | | | | |
|---|---|---|---|---|---|---|
| Number of shares issued | 80 000 | **(2)** | 120 000 | **(2)** | 60 000 | **(1)** |

**[5]**

**(e)** Statement of financial position at 1 July 2013

| | |
|---|---|
| Equity | |
| Ordinary shares of $1 each | 200 000 **(1 of)** |
| Share premium account | 20 000 **(1 of)** |
| Preference shares of $1 each | 60 000 **(1 of)** |
| | 280 000 |

**[3]**

**(f)** Future profits will be distributed as dividends. **(1)**
The directors need to declare dividends out of distributable profits. **(1)**
Bleeker's dividend on preference shares will be a fixed amount **(1)** and will take priority over dividends on ordinary shares. **(1)**
Dividends on ordinary shares need not be for the full amount of the remaining distributable profits. **(1)**
If there are no profits C & A are unlikely to receive dividends. **(1)**

**[6]**

**[Total: 40]**

**3 (a)**

| | January | February | March |
|---|---|---|---|
| Sales in volume (units) | 24 000 **(1)** | 25 200 **(1)** | 26 460 **(1)** |
| Sales revenue ($60 per unit) | $1 440 000 **(1 of)** | $1 512 000 **(1 of)** | $1 587 600 **(1 of)** |

**[6]**

February: 24 000 × 1.05 = 25 200
March: 25 200 × 1.05 = 26 460
April: 26 460 × 1.05 = 27 783

**(b)**

| | January Units | February Units | March Units |
|---|---|---|---|
| Sales | 24 000 | 25 200 | 26 460 |
| Closing inventory | 8 400 **(1 of)** | 8 820 **(1 of)** | 9 261 **(1 of)** |
| Opening inventory | (7 500) **(1)** | (8 400) **(1 of)** | (8 820) **(1 of)** |
| Units to be produced | 24 900 **(1 of)** | 25 620 **(1 of)** | 26 901 **(1 of)** |

**[9]**

Closing inventory:

| | | |
|---|---|---|
| January: | 25 200 (February sales) × 1/3 | = 8 400 |
| February: | 26 460 (March sales) × 1/3 | = 8 820 |
| March: | 27 783 (April sales) × 1/3 | = 9 261 |
| April: | 27 783 (May sales) × 1/3 | = 9 261 |

**(c)**

| | January Units | | February Units | | March Units | |
|---|---|---|---|---|---|---|
| Units to be produced | 24 900 | | 25 620 | | 26 901 | |
| Raw materials required (10 kilos each) | 249 000 | **(1 of)** | 256 200 | **(1 of)** | 269 010 | **(1 of)** |
| Closing inventory | 51 240 | **(1 of)** | 53 802 | **(1 of)** | 55 566 | **(1 of)** |
| Opening inventory | (48 000) | **(1)** | (51 240) | **(1 of)** | (53 802) | **(1 of)** |
| Purchases | 252 240 | **(1 of)** | 258 762 | **(1 of)** | 270 774 | **(1 of)** |
| Purchases at cost ($1.5 per unit) | 378 360 | **(1 of)** | 388 143 | **(1 of)** | 406 161 | **(1 of)** |

Closing inventory (in units):

January: 256 200 (February requirement) × 20% = 51 240

February: 269 010 (March requirement) × 20% = 53 802

March: 277 830 (April requirement) × 20% = 55 566

**[15]**

**(d)**

Budgeted Income statement for three months ending 31 March 2015

| | $ | | $ | |
|---|---|---|---|---|
| Sales revenue ($1 440 000 + $1 512 000 + $1 587 600) | | | 4 539 600 | **(1 of)** |
| Cost of goods sold | | | | |
| Opening inventory | 242 000 | | | |
| Cost of goods manufactured (working 1) | 2 436 315 | | | |
| Closing inventory | 298 000 | **(1) both** | 2 380 315 | |
| Gross profit | | | 2 159 285 | **(1 of)** |

Working 1

| | $ | |
|---|---|---|
| Opening inventory – raw materials (48 000 × $1.5) | 72 000 | **(1)** |
| Purchases ($378 360 + $388 143 + $406 161) | 1 172 664 | **(1 of)** |
| | 1 244 664 | |
| Closing inventory – raw materials (55 566 **(1 of)** × $1.5) | 83 349 | **(1 of)** |
| Cost of raw materials consumed | 1 161 315 | |
| Direct labour | 850 000 | **(1)** |
| Manufacturing overhead | 425 000 | **(1)** |
| Cost of goods manufactured | 2 436 315 | **(1 of)** |

**[10]**

**[Total: 40]**