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.

Cambridge will not enter into discussions about these mark schemes.

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.

CAMBRIDGE
International Examinations

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 = $\frac{\$180\,000}{\$1.50\ \mathbf{(1)}}$ = 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 A/c

	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]