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

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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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 = $\frac{\$180\,000}{\$1.50\ \textbf{(1)}}$ = 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]