UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2009 question paper for the guidance of teachers

9706 ACCOUNTING

9706/42 Paper 42 (Problem Solving – Supplement), maximum raw mark 120

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) Capital accounts

	A	B		A	B
Shares W2	72 000 **(4)**	48 000	Balances	70 000 **(1)**	50 000
Debentures	10 000 **(1)**	10 000	Profit on real'n W1	22 800**(3of)**	15 200
Cash W3	10 800 **(3of)**	7 200			
	92 800	65 200		92 800	65 200

[12]

W1 150 **(1)** – 112 **(1)** = 22 800 and 15 200 **(1)**
W2 150 **(1)** – 30 **(1)** = 72 000 **(1)** and 48 000 **(1)**
W3 10 000 + 8000 = 10 800 **(1)** and 7200 **(1)** to balance capital accounts.
(1 for both)

(b) Drakar Ltd
Balance sheet at 1 April 2009

	$	$	
Fixed assets		830 000	**(1)**
Goodwill W1		87 000	**(3)**
		917 000	
Current assets			
Stock	56 000 **(1)**		
Trade debtors	85 000 **(1)**		
Bank balance W2	189 000 **(5)**		
	330 000		
Creditors: amounts falling due in less than one year			
Trade creditors	(43 000) **(1)**		
Net current assets		287 000	
		1 204 000	
Creditors: amounts falling due in more than one year			
8% debentures (2026)		140 000	**(1)**
Net assets		1 064 000	
Share capital and reserves			
Ordinary shares of $1 each fully paid W3		650 000	**(4)**
Share premium W4		220 000	**(3)**
Retained earnings W5		194 000	**(3)**
Total equity		1 064 000	

[23]

W1 150 **(1)** – 63 **(1)** = 87 **(1)**
W2 (21 000) **(1)** + (10 000) **(1)** + 250 000 **(1)** + (30 000) **(1)** = 189 000 **(1)**
W3 500 **(1)** + 50 **(1)** 100 **(1)** = 650 **(1)**
W4 70 **(1)** + 150 **(1)** = 220 **(1)**
W5 224 **(1)** – 30 **(1)** = 194 **(1)**

(c) Cheaper than public issue (0–3)
Does not dilute the power base of the company (0–3)
1 mark for identification plus up to two further marks for development [max. 5]

2 (a) Reconciliation of profit from operations to net cash flow from operating activities.

	$000		
Operating profit	156	**(1)**	
Adjustments for depreciation	341	**(6)**	23 **(1)** + 110 **(1)** + 58 **(2)** + 150 **(1)**
Profit on disposal of fixed assets	(101)	**(4)**	240 – 320 – 21 (1 each)
Loss on disposal of fixed assets	5	**(1)**	
Increase in stock	(70)	**(1)**	
Increase in trade debtors	(80)	**(1)**	
Decrease in trade creditors	5	**(1)**	
	256	**(1)**	[16]

(b) Cash flow statement for the year ended 31 March 2009 **(1)**

Operating activities			
Net cash inflow from operating activities	256	**(1)**	
Returns on investments and servicing of finance			
Interest paid	(28)	**(1)**	
Taxation			
Corporation tax paid	(50)	**(1)**	
Capital expenditure and financial investments			
Payments to acquire tangible fixed assets	(800)	**(4)**	(400) + (250) + (150) **(1 each)**
Receipts from the sale of fixed assets	332	**(3)**	320 + 12 **(1 each)**
Equity dividends paid			
Equity dividends paid during the year	(32)	**(1)**	
Net cash outflow before financing	(322)	**(1)**	
Financing			
Receipts from issue of ordinary shares	660	**(3)**	300 + 360 **(1 each)**
Repayment of debentures	(100)	**(1)**	
Increase in cash	238	**(2)**	

[19]

(c) Reconciliation of net cash to movement in net debt

Increase in cash during year	238	**(1)**
Cash used to repurchase debentures	100	**(1)**
Change in net debt	338	**(1)**
Net debt at 1 April 2008	(348)	**(1)**
Net debt at 31 March 2009	(10)	**(1)** [5]

3 (a) Process 1

	kg	$			kg	$	
Raw materials	100 000	130 000	**(1)**	Animal feed	2 000	1 200	**(1)**
Labour	92 000	184 000	**(1)**	To process 2	45 000	188 000	**(1of)**
Variable costs	92 000	55 200	**(1)**	To process 3	36 000	150 400	**(1of)**
Fixed costs		8 000	**(1)**	Sales outlet	9 000	37 600	**(1of)**
		377 200				377 200	[8]

(b) $4.18 **(1of)** 376 000 / 90 000 [1]

(c) Process 2

	kg	$			kg	$	
Transfer from Process 1	45 000	188 000	**(1of)**	Animal feed	625	375	**(1)**
Direct labour	44 000	66 000	**(1)**	To sales	43 375	271 125	**(1of)**
Variable costs	44 000	5 500	**(1)**				
Fixed costs		12 000	**(1)**				
		271 500				271 500	[6]

Process 3

	kg	$	$			kg	$	$
Transfer from Process 1	36 000		150 400 **(1)**	Animal feed		330		198 (1)
Direct labour	34 500	44 850 **(2)** W1		WIP		1 000		
	1 000	390 **(3)** W2	45 240	Process 1			4 237 W5	
				Direct labour			390	**(1of)**
Variable costs	34 500	6 900 **(2)** W3		Variable costs			60	4 687
	1 000	60 **(3)** W4	6 960					**(5)**
				Finished goods		34 170		
Fixed costs			8 000 **(1)**	Process 1			144 765 W5	
				Direct labour			44 850	
				Variable costs			6 900	**(1of)**
				Fixed costs			8 000	
				Loss on spoilage (1398–198)			1 200 **(2)**	205 715
			210 600					210 600

W1 34 500 **(1)** × 1.3 **(1)** = 44 850
W2 1 000 **(1)** × 1.3 **(1)** = 390
0.3 **(1)**
W3 34 500 **(1)** × 0.2 **(1)** = 6900
W4 1 000 **(1)** × 0.2 **(1)** × 0.3 **(1)** = 60
W5 150 400 **(1)** ÷ 35 500 **(1)** = 4.237 **(1)** × 1000 **(1)** = 4 237
= 4.237 × 34 170 **(1)** = 144 765

(d) **process 2** \$6.25 **(1of)** (271 125 / 43 375) [1]
process 3 \$6.02 **(1of)** (205 715 / 34 170) [1]

(e) Any suitable example. [1]