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 must be read in conjunction with the question papers and the report on the examination.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2011 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.
### Question 1

**(a) (i)**

- Increase in retained earnings (1,170 – 1,125) = $45
- Dividend = $30
- Profit for the year = $75

**(a) (ii)**

- Profit for the year = $75
- Taxation = $28
- Interest = $32
- Profit from operations = $135

### (b) Statement of cash flows for the year ended 30 April 2011

<table>
<thead>
<tr>
<th>Activity</th>
<th>$000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Profit from operations</td>
<td>135</td>
</tr>
<tr>
<td>Amortisation of patents</td>
<td>25</td>
</tr>
<tr>
<td>Depreciation (190 + 24)</td>
<td>214</td>
</tr>
<tr>
<td>Increase in inventory</td>
<td>(18)</td>
</tr>
<tr>
<td>Decrease in trade receivables</td>
<td>4</td>
</tr>
<tr>
<td>Increase in trade payables</td>
<td>7</td>
</tr>
<tr>
<td>Profit on disposal</td>
<td>(3)</td>
</tr>
<tr>
<td>Tax paid</td>
<td>(24)</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(32 + 14 – 4)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities</strong></td>
<td>298</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Proceeds of sale of non-current assets</td>
<td>20</td>
</tr>
<tr>
<td>Purchase of non-current assets</td>
<td>(488)</td>
</tr>
<tr>
<td><strong>Net cash from investing activities</strong></td>
<td>(468)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Proceeds of debenture issue</td>
<td>300</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(30)</td>
</tr>
<tr>
<td><strong>Net increase in cash and cash equivalents</strong></td>
<td>270</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at start of year</strong></td>
<td>(42)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of year</strong></td>
<td>58</td>
</tr>
</tbody>
</table>

### (c)

- A rights issue is made to raise additional capital (for cash) = 2
- A bonus issue is funded from reserves = 2

### (d) (i)

- Share premium = 1
- Revaluation reserve = 1

### (d) (ii)

- To keep reserves in the most flexible/distributable form = 2
- OR To use capital reserves before revenue reserves = 2
2 (a) Top Hat Sports Club
Income and expenditure account
for the year ended 31 December 2010

\[
\begin{align*}
\text{Annual subscriptions} & \times 265 \times \$150 & 39750 \quad \text{1} \\
\text{Life subscriptions} & \times 3 \times \$80 & 240 \quad \text{1} \\
\text{Cafe loss} & (4440 - 8000) & 3560 \quad \text{1} \\
\text{Wages} & \times (10600) & 10600 \quad \text{1} \\
\text{Rent} & \times 12000 & 12000 \quad \text{1} \\
\text{General expenses} & & 4620 \quad \text{1} \\
\text{Heat, light and power} & (8240 + 910) & 9150 \quad \text{1} \\
\text{Depreciation} & (17200 + 5300 - 19500) & 3000 \quad \text{1} \\
\text{Deficit} & & 2940 \quad \text{1of} \\
\end{align*}
\]

(b) Balance sheet at 31 December 2010

\[
\begin{align*}
\text{Non-current assets} & \times 19500 \quad \text{1} \\
\text{Current assets} & \times 800 \quad \text{1} \\
\text{Inventory} & \times 750 \quad \text{1} \\
\text{Subscriptions} & \times 3780 \quad \text{1} \\
\text{Bank} & \times 5330 \quad \text{1} \\
\text{Current liabilities} & \times 760 \quad \text{1} \\
\text{Cafe payables} & \times 910 \quad \text{1} \\
\text{Subscriptions} & \times 150 \quad \text{1} \\
\text{Current liabilities} & \times 1820 \quad \text{1} \\
\text{Accumulated fund} & \times 3510 \quad \text{23010} \\
\text{At 1 January} & \times 21390 \quad \text{6} \\
\text{Deficit} & \times (2940) \quad \text{1of} \\
\text{At 31 December} & \times 18450 \quad \text{4560} \quad \text{1of} \\
\text{Life members’ fund} & \times 23010 \quad \text{15} \\
\end{align*}
\]
(c) Not-for-profit organisation | Public limited company  
| Has balance sheet | Has statement of financial position  
| Shows accumulated fund | Shows share capital and reserves  
| Has income and expenditure account | Has income statement  
| Shows surplus or deficit | Shows profit or loss  
| Limited access to financial statements | General access to financial statements  
| Has receipts and payments account | Has statement of cash flow  

2 for any pair  

[max 6]

(d) Review of business  
  Principal activities  
  Changes in principal activities  
  Dividend recommended  
  Principal risks and uncertainties facing co  
  Position of company at year end  
  Transfers to reserves  
  Key performance indicators – EPS  
  – including environmental matters  
  and employee matters  
  Changes to board  
  Subsidiary undertakings  
  Directors’ interests  
  Details of AGM  
  Statement of responsibilities  
  Directors’ remuneration  
  Research and development  
  Donations  
  Corporate governance  

[max 10]

3 (a) (i) \[180000 + (4 \times 4.5) = 10000 \text{ units}\]  

1 \[1\] of  

(ii) \[150000 + (2.5 \times 10000) = 6 \text{ } \]  

2 \[2\] of  

(iii) \[50000 + (2.5 \times 10000) = 2 \text{ } \]  

2 \[2\] of  

(iv) \[35000 + 10000 = 3.50 \text{ } \]  

2 \[2\] of  

(v) \[\frac{15000 + 100}{10000} \times 100 = 15\% \]  

1 \[1\] of  

[b] (i) \[10000 - 1500 - 700 = 7800 \text{ units}\]  

1 \[1\] of  

[3]
(ii) Finished goods

<table>
<thead>
<tr>
<th>Process 1</th>
<th>367 059 ((7 800/8 500) \times 400 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>46 800 (7 800 \times (1.5 \times 4))</td>
</tr>
<tr>
<td>Direct labour</td>
<td>78 000 (7 800 \times (2 \times 5))</td>
</tr>
<tr>
<td>Variable overhead</td>
<td>39 000 (7 800 \times (2 \times 2.5))</td>
</tr>
<tr>
<td>Fixed overhead</td>
<td>15 600 (7 800 \times 2)</td>
</tr>
</tbody>
</table>

\[546 459\] \[11\]

(iii) Work in progress

<table>
<thead>
<tr>
<th>Process 1</th>
<th>32 941 ((700/8 500) \times 400 000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct materials</td>
<td>2 100 (700 \times (1.5 \times 4 \times 0.5))</td>
</tr>
<tr>
<td>Direct labour</td>
<td>5 250 (700 \times (2 \times 5 \times 0.75))</td>
</tr>
<tr>
<td>Variable overhead</td>
<td>2 625 (700 \times (2 \times 2.5 \times 0.75))</td>
</tr>
</tbody>
</table>

\[42 916\] \[9\]

(c) Process 2

<table>
<thead>
<tr>
<th>$</th>
<th>Process 1</th>
<th>400 000</th>
<th>WiP</th>
<th>42 916</th>
</tr>
</thead>
<tbody>
<tr>
<td>DM</td>
<td>(46 800 + 2 100)</td>
<td>48 900</td>
<td>Fin goods</td>
<td>546 456</td>
</tr>
<tr>
<td>DL</td>
<td>(78 000 + 5 250)</td>
<td>83 250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VO</td>
<td>(39 000 + 2 625)</td>
<td>41 625</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FO</td>
<td>15 600</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[589 375\] \[6\]