UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/43 Paper 43 (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 must be read in conjunction with the question papers and the report on the examination.

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

CIE is publishing the mark schemes for the May/June 2010 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 **(a)** Capital accounts

		D	N	A			D	N	A
		$	$	$			$	$	$
1.7.09 Goodwill	**(1)**	6 000	6 000	6 000	1.1.09 bals b/d	**(1)**	24 000	18 000	
31.12.09 bals c/d		27 000	21 000	94 000	1.7.09 Premises	**(1)**			100 000
		(1)of	**(1)of**	**(1)of**	1.7.09 Goodwill	**(1)**	9 000	9 000	
		33 000	27 000	100 000			33 000	27 000	100 000
					1.1.10 bals b/d		27 000	21 000	94 000

Ofs if no extraneous items and balances carried down correctly. [7]

(b) Income statements (Trading and profit and loss accounts) and appropriation accounts for the 6 months ended

	30 June 2009			31 December 2009		
	$		$	$		$
Sales (1 mark for 188 000)		**(2)**	189 000		**(1)**	247 000
Opening inventory (stock)	22 000			21 000		
Purchases	105 000	**(1)**		127 000	**(1)**	
Closing inventory (stock)	–21 000		106 000	–28 000		120 000
Gross profit			83 000			127 000
Loss of disposal (10-2.5-6.5)	1 000	**(1)**		–		
Other costs	51 000			57 000		
Rent	3 000	**(1)**		–		
Depreciation –						
equipment	2 500	**(1)**		3 100	**(1)**	
premises	–			350	**(1)**	
Interest	–			1 200	**(1)**	
Bad debts	1 000	**(1)**	58 500	–		61 650
Profit for the period (net profit)			24 500			65 350
Salary – A	–			8 000	**(1)**	–8 000
Interest – D	600	**) (1)**		1 080	**(1)of**	
Interest – N	450	**)**		840	**(1)of**	
Interest – A	–		–1 050	3 760	**(1)of**	–5 680
Share of profit – D	11 725	**) (1)of**		17 223	**)**	
Share of profit – N	11 725	**)**		17 223	**) (1)of**	
Share of profit – A			–23 450	17 224	**)**	–51 670
			0			0

[19]

(c) Current accounts

		D	N	A			D	N	A
		$	$	$			$	$	$
1.1.09 bal b/d			3 500		1.1.09 bal b/d		7 000		
30.6.09 Drawings	**(1)**	11 000	15 000		30.6.09 IOC	**(1)of**	600	450	
30.6.09 bal c/d		8 325			30.6.09 Sh profit	**(1)of**	11 725	11 725	
					30.6.09 bal c/d			6 325	
		19 325	18 500	0			19 325	18 500	0
1.7.09 bal b/d			6 325		1.7.09 bal b/d		8 325		
31.12.09 Drawings	**(1)**	12 000	14 000	18 000	31.12.09 Salary	**(1)of**			8 000
31.12.09 bal c/d		14 628		10 984	31.12.09 IOC	**(1)of**	1 080	840	3 760
					31.12.09 Sh profit	**(1)of**	17 223	17 223	17 224
					31.12.09 bal c/d			2 262	
		26 628	20 325	28 984			26 628	20 325	28 984
1.1.10 bal b/d			2 262		1.1.10 bals b/d		14 628		10 984
			(1)of				**(1)of**		**(1)of**

[10]

For illustration only –

Balance sheet at 31 December 2009

	D	N	A	
Premises (100 000 – 350)				99 650
Equipment (62 000 – 3 100)				58 900
Stock				28 000
Debtors				24 000
Bank				16 000
Creditors				–20 000
Loan				–40 000
Accrued interest				–1 200
				165 350
	D	N	A	
Capital accounts	27 000	21 000	94 000	142 000
Current accounts	14 628	–2 262	10 984	23 350
				165 350

Bank = 6 000 + 428 000 + 6 500 + 40 000 – 221 000 – 3 500 – 62 000 – 108 000 – 70 000 = 16 000

(d) Any reasonable answers, e.g.
Advantage – strengthening of asset base with an increase in fixed assets in balance sheet.
Disadvantage – increased risk of debt. (2 × 2) [4]

[Total: 40]

2 **(a)** Income statement (profit and loss account) and appropriation account for the year ended 31 December 2009

	$		
Operating profit	192 000	**(1)of**	Interest × 16
Interest	12 000	**(1)**	
Profit before tax	180 000	**(1)of**	
Tax	36 000	**(1)of**	PBT × 20%
Net profit	144 000	**(1)of**	
Ordinary dividend	54 000	**(1)**	
Preference dividend	12 000	**(3)**	
General reserve	30 000	**(1)**	
Retained profit	48 000	**(1)of**	

(0.22 × 600 000) – 144 000 = 12 000
(1)of **(1)of** **(1)of** [11]

(b) Balance sheet at 31 December 2009

	$		
Non-current (fixed) assets	610 000	**(1)**	
Net current assets	420 000	**(1)of**	
	1030 000		
6% debentures 2018	200 000	**(1)**	
	830 000		
600 000 ordinary shares of $0.50 **(1)**	300 000	**(1)**	
240 000 5% preference shares of $1 **(1)of**	240 000	**(1)of**	
Share premium	150 000	**(1)of**	
General reserve	30 000	**(1)**	
Profit and loss	110 000	**(1)of**	62 000 + 48 000
	830 000		

[10]

(c) **(i)** Dividend cover $\frac{144 - 12}{54}$ 2.44 times **(2)of**

(ii) PER $\frac{2.50}{0.22}$ 11.36:1 **(2)**

(iii) Dividend yield $\frac{9}{250} \times 100$ 3.60% **(2)**

(iv) Gearing ratio $\frac{200 + 240}{300 + 200 + 240 + 150 + 30 + 110}$

$\frac{440}{1030} =$ 42.7% **(5)** (1 mark for any two components plus 1 for answer)

(v) ROCE $\frac{192\ \textbf{(1)of}}{1030\ \textbf{(1)of}} \times 100 =$ 18.64% **(1)of** [14]

(d) V has higher gearing, higher risk.
ROCE of V is higher, but return after interest may not be better.
V may pay interest at a higher rate with a premium for the added risk.
V has lower dividend cover, hence less assurance of dividends continuing.
V's profits, otherwise available for dividend, are being diverted to pay interest.
Other reasonable comment. [5]

[Total: 40]

3 (a) Overhead absorption rate

(i) by machine hour $\dfrac{42\,760}{2\,800 + 3\,000} = \$7.37$ per m/hr
(1) **(1)** **(1)of**

(ii) by labour hour $\dfrac{42\,760}{2\,100 + 1800} = \$10.96$ per lab/hr
(1) **(1)** **(1)of**

(iii) by total DM cost $\dfrac{42\,760}{34\,440 + 30\,800} = \$0.66$ per \$
(1) for both **(1)of**

[8]

(b)

DM	3.5 × \$8.8	30.80	**(1)**
DL	1.8 × \$10	18.00	**(1)**
Ohds	3 × \$7.37	22.11	**(1)of**
		70.91	
Profit	50%	35.46	**(1)of**
		106.37	**(1)of**

[5]

(c) **Overabsorption of overheads**:
This means that the amount of overheads added to production costs exceeds the total amount of overheads, because actual production was higher than anticipated when the OAR was calculated.
Underabsorption of overheads:
This means that the amount of overheads added to production costs is less than the total amount of overheads, because actual production was lower than anticipated when the OAR was calculated. (2 × 2) [4]

(d)

(i)	MPV	2 760	A	**(2)**
(ii)	MUV	1 640	F	**(2)**
(iii)	Total material variance	1 120	A	**(2)of**
(iv)	LRV	440	A	**(2)**
(v)	LEV	2 000	F	**(2)**
(vi)	Total labour variance	1 560	F	**(2)of**

[12]

(e) 4 672/1 600 $2.92 **(1)**

125 760/1 600 $78.60 **(1)**
Std price $81.52 **(1)of** [3]

(f) **Advantages**:
Budgets are easier to prepare.
Budgets are more realistic.
Needed for responsibility accounting.
Enables management to understand why actual performance differs from budgets.
Facilitates preparation of quotes etc. (4 × 2) [8]

[Total: 40]