UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2012 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/42 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.

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1 **(a)** Asterix plc – manufacturing account, and income statement for y/e 30 April 2012.

	$000		$000	
Raw materials at 1/5/2011	140	**1**		
Purchases of raw materials	1 450	**1**		
Carriage inwards	130	**1**		
	1 720			
Raw materials at 30/04/2012	(235)	**1**	1 485	
Direct labour			1 675	**1**
Prime cost **(1)**			3 160	**1OF**
Factory overheads			1 420	**2**
Factory depreciation			100	**1**
			4 680	
Work in progress at 1/5/2012	165			
Work in progress at 30/4/2012	(320)		(155)	**1**
Factory cost of goods produced			4 525	**1OF**
Factory profit @ 20%			905	**1OF**
Transferred to trading account			5 430	**1OF**
Revenues			6 500	
Deduct: Cost of sales				
Finished goods at 1/5/2011	330			
Manufacturing account	5 430	**1OF**		
5 760				
Finished goods at 30/4/2012	(438)	**1**	(5 322)	
Gross profit			1 178	**1OF**
Office overheads	990	**2**		
Carriage outwards	75	**1**		
Office depreciation	50	**1**	(1 115)	
Net profit on trading			63	
Factory profit	905	**1OF**		
Less increase in PUP	(18)	**3**	887	
Overall net profit			950	**1OF**

Factory overheads 1 350 **1** + 700 **1** = 2050

Office overheads 1 025 **1** – 35 **1** = 990

Increase in PUP 108 **1** $\times \frac{20}{120}$ **1** = 18 **1OF** [26]

(b) Asterix plc – extract of statement of financial position at 30 April 2012.

Raw materials			235	**1**
Work in progress			320	**1**
Finished goods	438	**1**		
Less PUP	(73)	**2**	365	
			920	**1OF**

[6]

(c) A qualifying asset is an asset that takes a substantial period of time to get ready for use or sale. **1**

The interest related to the acquisition should be capitalised **1** as soon as preparation starts. **1**

Capitalisation ceases when the activities required for the preparation are complete. **1**

All such assets should be treated in the same way **1** [5]

(d) If the carrying value is greater than the recoverable amount the asset is impaired. **1**

Write down asset to recoverable amount on statement of financial position. **1**

Amount of loss treated as an expense in income statement. **1** [3]

[Total 40]

2 (a) Income statement and appropriation account for the year ended 31 December 2011

	$		$	
Profit from operations			117 200	
Bank interest	700	**1**		
Interest on loan from Creakle	1 000	**2**	1 700	
			115 500	**1OF**
Interest on capital	nil			
Salaries	nil			
Shares of profit				
H	38 500			
C	38 500			
Q	38 500	**1OF**	115 500	

IOC and salaries do not need to be shown for marks.
Shares of profit to be in correct ratio. [5]

(b) H 61 000 **1**
C 32 000 **1** + 500 **1** = 32 500 **1**
Q 40 000 **1** + **1** [6]

(c)

	H	C	Q		
	$	$	$		
Original balance	3 500	(6 250)	(14 250)		
– IOC	(5 000)	(5 000)	(5 000)	**1**	
– Salary	(18 000)	–	–		
– Original profit	(41 500)	(20 750)	(20 750)		
+ Revised profit	38 500	38 500	38 500	**1OF**	
– Original interest		(500)			
+ Revised interest		1 000		**1OF**	
	(22 500)	7 000	1 500	**1OF**	[4]

Alternative approach

	H	C	Q		
	$	$	$		
Profit	38 500	38 500	38 500	**1OF**	
Interest		1 000		**1OF**	
Drawings	(61 0000)	(32 500)	(40 0000)	**1OF**	
Balance	(22 500)	7 000	(1 500)	**1OF**	[4]

[max 4]

(d) Partnership is under-capitalised **1**. The fixed capital has paid for non-current assets **1** but not for working capital **1** Hexham's drawings are higher than the others' **1.** due to/justified by salary and higher profit share **1.**

Basic profitability good **1** ROCE = 77.1% **1**

Drawings higher than profits **1.**
No liquid funds **1.** Current ratio is 0.7:1 **1.** Quick ratio is 0.25:1 **1**

Other sensible comment to be rewarded. [Max 8]

(e) Capital Accounts

	H	C	Q			H	C	Q	
	$	$	$			$	$	$	
Goodwill	6 000	6 000	---	**1**	Balance b/d	50 000	50 000	50 000	**1**
Current account			1 500	**1**	Goodwill	4 000	4 000	4 000	**1OF**
Loan			57 500	**1OF**	Premises	5 000	5 000	5 000	**1OF**
Balance c/d	53 000	53 000	---						
	59 000	59 000	59 000			59 000	59 000	59 000	
					Balance b/d	53 000	53 000		**1OF**

OFs for goodwill and premises should use split from **(b)**. [7]

(f) Statement of Financial Position at 1 January 2012

	$	$	
Non-current assets			
Premises		125 000	
Other		40 000	
		165 000	**1**
Current assets	39 000 **1**		
Current liabilities	(56 000) **1**	(17 000)	
		148 000	
Long term loan to Quilp		57 500	**1OF**
		90 500	
Fixed capital			
H	53 000		
C	53 000	106 000	**1OF**
Current accounts			
H	(22 500)		
C	7 000	(15 500)	**1OF**
		90 500	[6]

(g) Q now receives 27 000 + 5750 = 32 750 a year. **1OF**

This is less than his share of profit. **1OF**

Now he is only an employee with no control. **1**

As partnership is illiquid it may not pay the interest. **1**

The partnership may never pay back the loan. **1**

Q will not share in future growth of property value. **1**

Employment may offer better security. **1**

Other sensible comment to be rewarded. [Max 4]

[Total: 40]

3 **(a)** A company sets a budget for a certain level of output **1**. If the actual level of activity is higher or lower than this level **1** the budgeted figures are adjusted/recalculated to the actual level **1** [3]

(b) With a fixed budget, the figures are not changed whatever the actual level of output **1**. This means that if the actual level is different from the budget level of activity any comparison between the two will not be any help to management **1**. It will be difficult to identify the reason for any difference **1** or what actions to take to correct any problems **1** [4]

(c) Production budget for months 1–3 (all figures in units)

Month	1	2	3
Sales	1200	1400	1600 **1**
Opening inventory	(200)	(180)	(160) **1 for all 3**
Closing inventory	180 **1**	160 **1**	140 **1**
Production	1180 **1**	1380 **1**	1580 **1**

[8]

(d) Calculation of break even point:

	$	$
Selling price unit		29
Direct material per unit	6	
Direct labour per unit	5	
Other variable overheads	4 **3***	15
Contribution per unit		14

Fixed costs (15 000 + 23 500) = $38 500 **2***

Break even point in units $\frac{38\,500}{14}$ = 2 750 **1** units × $29 = $79 750 **1OF** [7]

*	Output in units	Total overheads $
	4 000	31 000
	4 500	33 000
Change	500 **1**	2 000 **1**

Variable cost per unit $\frac{\$2\,000}{500}$ = $4 **1OF**

Fixed costs: $31 000 – (4 000 × $4 **1OF**) = $15 000 **1OF**

OR $33 000 – (4 500 × $4 **1OF**) = $15 000 **1OF**

(e) Flexible budget statement for Months 1–3.

Details	Actual	Budget		Variance	
	$	$		$	
Sales	123 200	127 600	**1 for both**	(4 400)	**1**
Direct material	(35 200)	(26 400)	**1 for both**	(8 800)	**1**
Direct labour	(17 600)	(22 000)	**1 for both**	4 400	**1**
Factory overheads	(36 200)	(32 600)	**1 for both**	(3 600)	**1OF**
Other fixed costs	(18 000)	(23 500)		5 500	
Profit	16 200	23 100	**1OF**	(6 900)	**1OF**

[10]

(f) The selling price per unit was lower **1** perhaps to gain higher sales volume **1**. the direct material cost was higher than budget **1** which had a negative impact on profit **1**. the direct labour time taken was lower than budget **1** which had a positive effect on profit **1**. There was a positive net saving on factory and other fixed overheads **1**, but these could not offset the additional costs and reduce selling price which led to a lower profit than budgeted **1**. [8]

[Total 40]