CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/41 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.

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

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2015 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

CAMBRIDGE
International Examinations

1 (a)

Corbiere plc
Income statement for the year ended 30 September 2015

		$	$	
Revenue (756 690 – 3470)			753 220	**(1)**
Cost of Sales	(W1)		(384 060)	
Gross Profit			369 160	**(1) of**
Administrative Expenses	(W2)	73 732		
Distribution Costs	(W3)	106 218	(179 950)	
Profit from Operations			189 210	**(1) of**
Finance Costs			(4 080)	**(1)**
Profit before tax			185 130	**(1) of**
Taxation			(28 200)	**(1)**
Profit for the year			156 930	**(1) of**

Workings

W1 Cost of Sales

	$		$	
Opening Inventories			62 500	
Purchases	392 340			
Returns outwards	(2 780)	**(1)**		
	389 560			
Carriage Inwards	3 600	**(1)**	393 160	
			455 660	
Closing inventories (73 100 – 5000 + 3500)			(71 600)	**(1)**
			384 060	

W2 Admin.exps 63 810 – 6000 **(1)** + 2584 **(1)*** + 5088 **(1)**** – 4800 **(1)** + 11 320 **(1)***** + 1730 **(1)** = 73 732 **(1) of**

W3 Distribution costs 49 330 + 10 336 **(1)*** + 1272 **(1)**** + 45 280 **(1)***** = 106 218 **(1) of**

[21]

* Depreciation motor vehicles 64 600 × 20% = 12 920
Split Admin 2584 Distribution 10 336

** Depreciation Plant and Machinery 42 400 × 15% = 6 360
Split Admin 5088 Distribution 1272

*** Wages and salaries 54 900 + 1700 = 56 600
Split Admin 11 320 Distribution 45 280

(b)

Corbiere plc
Statement of financial position at 30 September 2015

Assets	**$**	
Non-Current Assets		
Property	220 000	**(1)**
Plant and Machinery (W4)	36 040	**(2) of**
Motor Vehicles (W5)	32 920	**(1) of**
Current Assets		
Inventories	71 6000	**(1) of**
Trade and other receivables (W6 and W7)	93 970	**(2) of**
	165 570	
Total Assets	454 530	
Equity and liabilities		
Equity		
Ordinary share capital	50 000	**(1)**
Share Premium	15 000	
Retained earnings (W8)	226 630	**(1) of**
	291 630	
Non-current liabilities		
6% debentures (2020)	68 000	**(1)**
Current liabilities		
Trade and other payables (W9 and W10)	53 930	**(2) of**
Taxation	28 200	**(1)**
Cash & cash equivalents	12 770	
	94 900	
Total equity and liabilities	454 530	

Workings

W4	\$68 700 + \$6000 **(1)** – \$6360 **(1)** – \$32 300 = \$36 040
W5	\$84 600 – \$12 920 – \$38 760 = \$32 920
W6	\$86 500 – \$1730 **(1)**of = \$84 770
W7	\$4400 + \$4800 = \$9 200 **(1)**of
W8	\$69 700 + \$156 930 **(1)**of = \$226 630
W9 and W10	\$48 730 + \$2480 + \$1700 **(1)** + \$1020 **(1)**of = \$53 930

[13]

(c) Inventory is valued at lower of cost and net realisable value **(1)** to avoid inventory being overstated **(1)** and to recognize a loss as soon as it arises. **(1)** [Max 2]

The flood occurred after the date of the financial statements **(1)**. The condition did not exist at this date and the event is therefore non-adjusting as per IAS10 **(1)**. The event should be disclosed as a note **(1)**. [Max 2]

Proposed dividends are disclosed as a note **(1)** but are not shown in the financial statements **(1)**. **[6]**

[Total: 40]

2 (a) Partners' capital accounts

	A	B	C			A	B	C	
	$	$	$			$	$	$	
Goodwill	108 000	86 400	21 600	**(3)**	Bal b/d	76 000	64 000	105 000	**(1)**
Bal c/d	40 000	25 600	186 400		Revaluation (W1)			7 000	**(3)**
					Goodwill	72 000	48 000	96 000	**(3)**
	148 000	112 000	208 000			148 000	112 000	208 000	
					Bal b/d	40 000	25 600	186 400	**(1)**

W1 15 000 – 3000 – 5000 = 7000 **[11]**

(b) Net current assets = $20 000 + $20 000 = $40 000 **(1)** **[1]**

(c) Arial, Bodoni and Caslon
Statement of financial position at 1 April 2014

			$	
Non-current Assets			175 000	**(1)**
Land and buildings	(95 000 + 80 000)		37 000	**(1)**
Plant and equipment	(25 000 + 12 000)		212 000	
Current assets		W1	20 000	**(2)**
Inventory		W2	35 000	**(1)**
Trade Receivables		W3	5 000	**(2)**
Cash and Cash Equivalents			60 000	
			272 000	
Total assets				
Capital accounts				
Arial			40 000	)
Bodoni			25 600	)
Caslon			186 400	) **(1) of (1) cf**
			252 000	
Current liabilities				
Trade payables			20 000	**(1)**
Total capital and liabilities			272 000	

W1: Current assets – Inventory = 40 000 **(1)** (Liquid ratio used)
Therfore Inventory = 20 000 **(1)**
W2: Trade receivables + cash = 40 000 Cash = 40 000 – 35 000 = 5000
W3: 3 × 20 000 = $60 000 – $55 000 **(1) of** = $5000 **(1) of** (current ratio used)

[10]

(d)

Partners' capital accounts

	A	B	C			A	B	C	
	$	$	$			$	$	$	
Drawings	47 000	68 000	110 000	**(1)**	Bal b/d	40 000	25 600	186 400	**(1) of**
Bal c/d	83 000	29 600	174 400		Share of profit	90 000	72 000	18 000	**(3)**
					Salary			80 000	**(1)**
	130 000	97 600	284 400			130 000	97 600	284 400	
					Bal b/d	83 000	29600	174 400	**(1) of**

[7]

(e)

Value of business = Net assets + goodwill

Net Assets:	$	
Net assets at 1 April 2014	252 000	**(1) of**
Profit for the year	260 000	**(1)**
	512 000	
Drawings	225 000	**(1)**
Net assets at 31 March 2015	287 000	**(1) of**
Goodwill		
1.25 **(1)** × 260 000 **(1)**	325 000	**(1)**
Value of business	612 000	**(1)**

[8]

(f) Reputation **(1)**
Customer service **(1)**
Customer base **(1)**
Location **(1)** [Max 3]

[3]

[Total: 40]

3 **(a)** Selling price = 15 + 32 + 7 = 54 **(1)** × 1.175 **(1)** = $63.45 **(1) of** **[3]**

(b)

(i)	Sales price variance	328 860 – 319 788	**(1)of** =	9 072	(F)	**(1)of**
(ii)	Sales volume variance	319 788 – 317 250	**(1)of** =	2 538	(F)	**(1)of**
(iii)	Total sales variance	9072 (F) + 2538 (F)	=	11 610	(F)	**(1)of** + **1 cf**
(iv)	Material price variance	78 795 – 77 250	=	1 545	(A)	**(2)**
(v)	Material usage variance	77 250 – 76 500	=	750	(A)	**(2)**
(vi)	Total Material variance	1545 (A) + 750 (A)	=	2 295	(A)	**(1)of** + **(1) cf**
(vii)	Labour rate variance	172 125 – 162 000	=	10 125	(A)	**(2)**
(viii)	Labour efficiency variance	162 000 – 163 200	=	1 200	(F)	**(2)**
(ix)	Total labour variance	10 125 (A) + 1200 (F)	=	8 925	(A)	**(1)of** + **(1) cf**

[18]

Variances – award 1 for figure and 1 for (F) / (A).

(c) The rate is adverse showing a greater cost. **(1)of.** This may be due to a more highly skilled workforce. **(1) of**
The efficiency is favourable and thus less time than the standard was spent on each unit. **(1) of** This may be due to the more highly skilled workforce. **(1)of**
The total labour variance is adverse as the adverse rate is greater than the favourable efficiency rate. **(1)of** **[5]**

(d)

	$		$	
Sales			328 860	**(1)**
Deduct:				
Materials	78 795			
Labour	172 125			
Overheads	36 000	**(1)**		
	286 920			
Less Closing inv.	(3 240)	**(1)**	(283 680)	
Profit			45 180	**(1) of**

[4]

(e) Calculation of budgeted profit for 5040 items sold

Sales (5040 × $63.45)	319 788	**(1) of**	
Cost of sales (5040 × $54)	272 160	**(1)**	
Standard profit	47 628	**(1) of**	**[3]**

(f) Statement reconciling actual and budgeted profit for April

		$		
Standard profit		47 628	*	
Add:	sales price variance	9 072	**(1) of**	
	labour efficiency variance	1 200	**(1) of**	
		57 900		
Less:	material price variance	(1 545)	**(1) of**	
	material usage variance	(750)	**(1) of**	
	labour rate variance	(10 125)	**(1) of**	
	overhead variance	(300)	**(1) of**	
Actual profit		45 180	***(1) of both**	**[7]**

[Total: 40]