CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 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.

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1 **(a)** **(i)** 5.04 times [2]

(ii) 35.35 days [2]

(iii) 28.16 days [2]

(b) The company gives more credit to customers than it takes. **(1)of**. It is more desirable to take more credit from suppliers. **(1)** This could have cash flow implications. **(1)** [Max 2]

(c) **(i)** 50 000 **(1)** – 10 000 **(1)** – 8000 **(1)** = 32 000 [3]

(ii) 26 000 **(1)** – 200 **(1)** = 25 800 [2]

(iii)

Year	Discount factor	Cash Flow $		Discounted cash flow $	
1	0.909	9 681	**(1)**	8 800	**(1)of**
2	0.826	9 080	**(1)**	7 500	**(1)of**
3	0.751	8 122	**(1)**	6 100	**(1)of**
4	0.683	6 589	**(1)**	4 500	**(1)of**
				26 900	**(1)of**

[9]

(d) **(i)** $26 900 **(2)of** [2]

(ii) $26 900 **(2)of** [2]

(e) **(i)** 32 000 **(1) of** – 26 900 **(1) of** = 5100 [2]

(ii) 420 800 **(1)** – 5100 **(1) of** = 415 700 [2]

(iii) 10% **(2)** [2]

(f) **(i)**
Technological change **(2)**
Economic downturn **(2)**
Damage to asset **(2)**
Fall in market value **(2)**
Change in demand **(2)** [Max 4]

(ii) IAS36 [2]

(g) Legal costs
Architect's fees
Any reasonable answer accepted [2]

[Total: 40]

2 **(a)** **(i)** (319 – 272) **(1)** + 140 **(1)** = 187 [2]

(ii) 187 **(1)of** + (46 + 16) **(1)** + 15.5 **(1)** = 264.5 [3]

(b)

Statement of recognised income and expenses
for the year ended 31 March

	2012 $000		2011 $000	
Gain on revaluation of property	350	**(2)**	–	**(1)**
Profit for the year	187	**(2)of**	99	**(1)**

[6]

(c) Only purchased goodwill is shown in the financial statements. **(2)**

Goodwill has increased so expansion must have involved the purchase of another business. **(2)**

[4]

(d)

	2012	2011
Income gearing	$\dfrac{31.51\ \textbf{(1)}}{264.5\ \textbf{(1)of}} \times 100 = 11.91\%\ \textbf{(1) of}$	$\dfrac{20\ \textbf{(1)}}{155\ \textbf{(1)}} \times 100 = 12.9\%\ \textbf{(1) of}$
Gearing	$\dfrac{610\ \textbf{(1)}}{2879\ \textbf{(1)}} \times 100 = 21.19\%\ \textbf{(1) of}$	$\dfrac{300\ \textbf{(1)}}{1572\ \textbf{(1)}} \times 100 = 19.08\%\ \textbf{(1) of}$

(e) **(i)** EPS = $\dfrac{(187 - 18)\ \textbf{(1) of}}{1600\ \textbf{(1)} + (800 \text{ x } 9 \div 12)\ \textbf{(1)}} = \$\ 0.0768\ \textbf{(1) of}$

[4]

(ii) DPS = $\dfrac{122\ \textbf{(1)}}{2400\ \textbf{(1)}} = \$0.0508\ \textbf{(1) of}$ [3]

(f) **(i)** Gearing has increased slightly **(1)**, but is still very low **(1)**.
Income gearing has decreased slightly **(1)**, as profit has increased more than interest. **(1)**
The company now has more liquid funds available to pay debenture interest. **(1)**
[Max 3]

[Total: 40]

3 **(a)** $\frac{10\,000\ \mathbf{(1)} + 2000\ \mathbf{(1)}}{0.8\ \mathbf{(1)}}$ = 15 000 units [3]

(b) **(i)**

Process 1

Raw materials			Bank (scrap)		
15 000 × 10	150 000	**(1)of**	3000 × 5	15 000	**(1)of**
Direct labour					
15 000 × 18	270 000	**(1)of**	Process 2	607 500	**(1)of**
Variable overhead					
15 000 × 6	90 000	**(1)of**			
Fixed overhead					
15 000 × 7.5	112 500	**(1)of**			
	622 500			622 500	

[6]

(ii)

Process 2

Process 1			607 500	**(1)of**	Trading account				
Raw materials					Process 1	506 250	**(1)of**		
10 000 × 8	80 000	**(1)**			RM	80 000	**(1)of**		
2 000 × 8 × .75	12 000	**(1)**	92 000		DL	240 000	**(1)of**		
Direct labour					VO	60 000	**(1)of**		
10 000 × 24	240 000	**(1)**			FO	75 000	**(1)of**		
2 000 × 24 × .5	24 000	**(1)**	264 000					961 250	
Variable overhead					Work-in-progress				
10 000 × 6	60 000	**(1)**			Process 1	101 250			
2 000 × 6 × .5	6 000	**(1)**	66 000		RM	12 000			
Fixed overhead					DL	24 000			
10 000 × 7.5			75 000	**(1)**	VO	6 000		143 250	**(2)of**
			1 104 500						
								1 104 500	

[15]

(c) $\frac{961\,250\ \mathbf{(1)\ of}}{10\,000\ \mathbf{(1)}} = \$96.125$

[2]

(d)

		$	
Cost from process 2		96.125	**(1)of**
Selling and administration cost		8.00	**(1)**
–FC from process 1	$\dfrac{112500\ \textbf{(1)of}}{12000\ \textbf{(1)}}$	(9.375)	
–FC from process 2		(7.50)	**(1)**
Variable cost		87.25	**(1)of**
Selling price		92.00	**(1)**
Contribution per unit		4.75	**(1)of**

[8]

The directors should accept the order.	**(1)**
It yields a positive contribution.	**(1)of**
There may be further orders from Limbu.	**(2)**
The company could lost the goodwill of existing customers.	**(2)**
Could Limbu sell on his purchases and undercut the company.	**(2)**

[Max 6]

[Total: 40]