UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2008 question paper

9706 ACCOUNTING

9706/04 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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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.

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UNIVERSITY of CAMBRIDGE
International Examinations

1 **(a)** Capital accounts ($000)

	A		B		C			A		B		C	
Goodwill w/o	36	**(1)**	24	**(1)**	12	**(1)**	Balances	75	**(1)**	60	**(1)**	63	**(1)**
Balances	65		62		77		Revaluation	26		26		26	**(4)**
	101		86		89			101		86		89	
							Balances	65		62		77	**(1of)**

(b) W1 Calculation of profit for the year

	$	
Profit	115 500	**(1)**
Interest on capital	15 840	**(1)**
Salary	14 000	**(1)**
Interest on drawings	(1 340)	**(1)**
	144 000	

(b) Profit and loss appropriation account for the year ended 31 March 2008

		$		$	
Profit to 30 September				60 000	**(1)** (correct split)
Interest on drawings				500	*
				60 500	
Salary – A		7 000	**(1)**		
Interest on capital –	A	3 000	**(1)**		
	B	2 400	**(1)**		
	C	2 520	**(1)**	14 920	
				45 580	
Share of residual profits –	A	15 193			
	B	15 193	**(1of all)**		
	C	15 194		45 580	
Profit to 31 March				84 000	**(1)** (correct split)
Interest on drawings				840	* **(1)** (for both)
				84 840	
Salaries –	A	5 000	**(1)**		
	B	3 000	**(1)**	8 000	
				76 840	
Interest on capital –	A	1 950	**(1of)**		
	B	1 860	**(1of)**		
	C	2 310	**(1of)**	6 120	
				70 720	
Share of residual profits –	A	35 360			
	B	23 573	**(1of all)**		
	C	11 787		70 720	

(c) Current accounts

	A		B		C			A		B		C	
Balance b/d			305				Balances	13 020				13 785	
Drawings	46 000	**(1)**	44 000	**(1)**	31 000	**(1)**	Salaries	12 000	**(1)**	3 000			
Interest on dwg	684		504		152		Interest	4 950		4 260		4 830	**(1)**
Balances	33 839	**(1)**	1 217	**(1)**	14 444	**(1of)**	Profit	50 553	**(1)**	38 766	**(1)**	26 981	**(1of)**
	80 523		46 026		45 596			80 523		46 026		45 596	
							Balances	33 839		1 217		14 444	

2 **(a)** Manufacturing account for the year ended 31 December 2007

	$	
Purchases of raw materials	230 400	**(1)**
Direct wages	359 500	**(1)**
Manufacturing royalties	17 100	**(1)**
Prime cost	607 000	
Factory overheads	215 000	**(1)**
Total production cost	822 000	
Manufacturing profit	304 140	**(1of)**
Transfer price	1 126 140	**(1of)**

(b) Trading account for the year ended 31 December 2007**(1)**

	$		
Stocks of finished goods	15 867	**(1)**	12 300 **(1)** × 129% **(1)**
Transfer price	1 126 140	**(1of)**	
	1 142 007		
Stock	18 769	**(1)**	
Cost of sales	1 123 238	**(1of)**	
Gross profit	626 762	**(1of)**	
Sales	1 750 000	**(1)**	

(c) Provision for unrealised profit

	$			$	
			Balance b/d	3567	**(3of)** W1
Balance c/d	5069	**(5of)** W2	Profit and loss a/c	1502	**(1of)**
	5069			5069	
			Balance b/d	5069	**(1of)**

W1 15867**(1of)** – 12 300**(1)** = 3567**(1of)**

W2 $\frac{30\,4140\textbf{(1of)} \times 100}{822\,000\textbf{(1)}}$ = 37% $\frac{37}{137}$**(1of)** × 18769**(1)** = 5069**(1of)**

(d) W1 $\frac{1\,126\,140\textbf{(1of)}}{4000}$ = \$281.535**(1of)**

W2 607 000 + 43 000 = $\frac{650\,000}{4000}$**(1of)** = \$162.50**(1of)**

Contribution per unit = \$119.035**(1of)**

Break even = $\frac{\$172\,000}{\$119.035 \text{ (as above)}}$**(1)** = 1445 units**(1of)**

Margin of safety = 4000 **(1)** – 1445 = 2555 units**(1of)**

(e) 1445**(1of)** × \$281.535 **(1of)** = \$406 818**(1of)**

(f) to keep resources working
to cover fixed costs
to maintain customer confidence etc.
1 for identification plus 2 for development

3 Cash budget for the three months ending 30 November 2008.

	September		October		November		
Receipts	$		$		$		
Cash sales	5 200		5 600		6 000		**(2)** all 3 or **(1)** for 2
Credit sales	J 21 150	**(1)**	A 21 600	**(1)**	S 23 400	**(1)**	
	A 20 520	**(1)**	S 22 230	**(1)**	O 23 940	**(1)**	
Share issue					60 000	**(1)**	
	46 870		49 430		113 340		
Payments							
Materials	15 600	**(1)**	16 575	**(1)**	18 135	**(1)**	
Wages	10 100	**(1)**	10 600	**(1)**	10 750	**(1)**	
Overheads	26 000		24 500		24 750	**(1)**	
Interest			12 000	**(1)**			
	51 700		63 675		53 635		
Balance	(1 350)	**(1)**	(6 180)		(20 425)		
Receipts	46 870		49 430		113 340		
	45 520		43 250		92 915		
Payments	51 700		63 675		53 635		
Balance	(6 180)	**(1of)**	(20 425)	**(1of)**	39 280	**(1of)**	but **max 20** marks

(b) Notlimah Ltd.
Trading profit and loss and appropriation account for the three months ending 30 November 2008

	$		$		
Sales			168 000	**(1)**	
Less cost of sales					
Stock	4 700	**(1)**			
Purchases	56 600	**(1)**			
	61 300				
Stock	5 700	**(1)**	55 600		
Gross profit			112 400	**(1of)**	
Discounts received			1 290	**(1)**	
			113 690		
Less expenses					
Discounts allowed	3 510	**(1)**			
Wages	33 425	**(1)**			
Overheads	75 450	**(1)**			
Depreciation	1 250	**(1)**			5000 × .25 = 1250
Interest	6 000	**(1)**	119 635		**(1)** **(1)**
Retained loss for the three months			5 945	**(1of)**	

(c) A cash budget is a forecast whereas a cash flow statement is an historical document
A cash budget not required as a standard; a cash flow statement is required as a standard
A cash budget is used for planning and control purposes; a cash flow statement analyses cash movements for a previous time period
2 marks for each difference

(d) Do nothing it may only be a short term problem
Arrange overdraft facilities
If the overdraft will cause problems then make an attempt to reschedule some of the payments etc.
1 mark for identification plus 1 mark for development.