CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9706 ACCOUNTING

9706/43 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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CAMBRIDGE
International Examinations

1 (a) **Manufacturing account for the year ended 31 December 2011**

	$		$	
Raw materials at 1 January 2011			31 000	
Purchases	261 000			
Carriage	2 500		263 500	
			294 500	
Raw materials at 31 December 2011			46 400	
Cost of raw materials consumed			248 100	**2**
Manufacturing wages	166 000	}**1**		
Direct expenses	9 200			
			175 200	
Prime cost			423 300	**1 of**
Supervisory wages	42 800	**1**		
Factory rent	36 000	**1**		
Depreciation of machinery	13 800	**1**		
			92 600	
Production cost			515 900	**1 of**
Factory profit			206 360	**1 of**
Transfer cost			722 260	**1 of**

[10]

(b) **Provision for unrealised profit**

Balance c/d	24 800	**4**	Balance b/d	16 800	**2**
			Income statement	8 000	**1 of**
	24 800			24 800	
			Balance b/d	24 800	**1 of**

Working

$$722\,260\ \mathbf{1\ of} \times 1240\ \mathbf{1} \div 10\,318\ \mathbf{1} \times \frac{40\ \mathbf{1}}{140} = 24\,800$$

OR

$$515\,900\ \mathbf{1\ of} \times 1240\ \mathbf{1} \div 10\,318\ \mathbf{1} \times \frac{40\ \mathbf{1}}{100} = 24\,800$$

[8]

(c) Income statement for the year ended 31 December 2011

	$		$	
Sales			880 000	
Finished goods at 1 January 2011	58 800	**1**		
Transfer of finished goods	722 260	**1 of**		
	781 060			
Finished goods at 31 December 2011	86 800	**3 of**		
			694 260	
Gross profit			185 740	**1 of**
Factory profit			206 360	**1 of**
Office rent	21 000	**1**		
Depreciation of office equipment	2 900	**1**		
Administrative and selling costs	201 000	**1**		
Increase in provision for unrealised profit	8 000	**2 of**		
			232 900	**1 of**
Profit for the year			159 200	

Working

722 260 **1 of** × 1240 **1** ÷ 10 318 **1** = 86 800 [13]

(d) Statement of Financial Position at 31 December 2011

			$		$	
Non-current assets					570 000	
Current assets						
Inventory						
Raw materials			46 400	**1**		
Finished goods	86 800	**1 of**				
Provision for unrealised profit	24 800	**1 of**	62 000			
			108 400			
Trade receivables			96 200			
Bank			11 000			
			215 600			
Current liabilities				**1 all 3**		
Trade payables			(84 100)		131 500	
					701 500	
Capital						
Bal at 1 January 2011					622 300	**1**
Profit for the year					159 200	**1 of**
Drawings					(80 000)	**1**
					701 500	

[7]

(e) Factory profit needs to be removed from items of inventory **1** because it has not yet been earned/realised **1**. This is an application of prudence **1**. [Max 2]

[Total: 40]

2 (a) Statement of cash flows for Hyung Ltd for the year ended 31 March 2012

	$000		$000	
Net loss for the year (15-30)			(15)	**1**
Depreciation			236	**1**
Loss on sale of non current assets				
(240-108 = 132 **1** – 130 **1**)			2	**1 of**
Increase in inventories			(26)	**2**
Increase in trade receivables			(18)	**2**
Decrease in trade payables			(56)	**2**
Net cash flow from operating activities			123	**1 of**
Investing activities				
Payments to acquire fixed assets	(808)	**1**		
Receipts from the sale of fixed assets	130	**1**		
			(678)	**1**
Issue of share capital (400 **1**+20 **1**)	420	**1 of**		
Repayment of debentures	(80)	**2 of**		
			340	**1**
Net decrease in cash and cash equivalents			(215)	**1 of**
Balance at 1 April 2011			174	
Balance at 31 March 2012			(41)	**1**

[24]

(b) Cash is the actual physical amount of money held by a business, whereas profit is a calculated amount and does not represent actual money [2]

(c) Current ratio 198:93 2.13:1 **1**

Acid test 90:93 0.97:1 **1**

Return on capital employed = $\frac{(15)}{1805} \times 100 = (0.83)\%$ 1

Return on equity = $\frac{(15)}{1685} \times 100 = (0.89)\%$ 1

Max 4 marks for ratios

Hyung Ltd has a good liquidity position if inventories are included, however if inventories are excluded then the business does not have enough current assets to cover its current liabilities. Perhaps there has been too much spent on inventories and non-current assets. **2**

The business made a loss and therefore has a small negative return both on capital employed and equity. **2** [8]

(d) Loan – annual interest has to be paid out of profits before appropriations to the shareholders. It may be secured on non current assets which cannot be sold for the length of the loan. **3**

Rights issue - usually the market price of the shares drops after a rights issue and not all shareholders will chose to take up the rights so not all the desired money will be raised. **3** [6]

[Total: 40]

3 (a)

	$		
Raw material	30 000	**1**	
Direct labour	37 500	**1**	
Direct costs	5 000	**1**	
Supervisor	1 500	**1**	
Rent	2 000	**1**	
Maintenance	750	**1**	
Fixed manufacturing costs	1 000	**1**	
	77 750	**1 of**	
	÷ 1 250	**1**	
	= $62.20	**1 of**	

OR alternative

	$ per unit		
Raw material	24.00	**2**	
Direct labour	30.00	**2**	
Direct costs	4.00	**1**	
Supervisor	1.20	**1**	
Rent	1.60	**1**	
Maintenance	0.60	**1**	
Fixed manufacturing costs	0.80	**1**	
	62.20	**1 of**	[10]

(b)

	$ per unit		
Brought forward	62.20	**1 of**	
Commission	2.50}		
Distribution	1.00}	**1**	
Administration	8.20	**1**	
	73.90	**1 of**	
Mark-up (30%)	22.17	**1 of**	
Selling price	96.07	**1 of**	[6]

(c)

	$		$	
Sales 1100 **1** × 96.07 **1 of**			105 677	
Manufacturing costs	77 750	**1 of**		
Closing inventory 150 **1** × 62.20 **1 of**	(9 330)			
			68 420	
Gross profit			37 257	
Shipping, commission and admin				
1 100 **1** × {1.00 + 2.50 + 8.2} **1**			12 870	
Profit from operations			24 387	[7]

(d) \$22.17 **1 of** × 1100 **1** = 24 387 **1 of** [3]

(e)

	$		
Revenue (2000 ×136.5)	273 000		
Variable costs (2000 ×70)	140 000		
Fixed costs	70 000		
Expected profit	63 000	**2**	[2]

(f) **(i)** $\frac{63}{273} = 23.08\%$ **2 of**

(ii) B/E = $\frac{7\,0000\mathbf{1}}{66.5\,\mathbf{1}} = 1053$ units **1 of**

$\frac{(2\,000 - 1053)\,\mathbf{1\,of}}{2\,000\ \ \mathbf{1\,of}} = 47.35\%$ **1 of**

(iii) $\frac{63}{140} = 45\%$ **2 of**

(iv) $\frac{63}{70} = 90\%$ **2 of** [12]

[Total: 40]