CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 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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CAMBRIDGE
International Examinations

1 (a)

Realisation Account

	$			$	
Land and buildings	210 000	(1)	Trade payables	1 142	**(1)**
Plant and machinery	27 950		A – Motor vehicle	4 000	**(1)**
Motor vehicles	11 352		B – Motor vehicle	4 000	
Inventories	17 632		Bank: Land and builds	217 000	**(1)**
Trade receivables	1 206	**(3)**	Plant and machinery	25 000	**(1)**
Dissolution costs	2 250	**(1)**	Motor vehicles	5 000	
Cap. a/c A 1 692 **(1) OF**			Inventories	18 478	**(1)**
B 1 692 **(1) OF**					
C 846 **(1) OF**	4 230				
	274 620			274 620	

Trade receivables:
9340 – 1040 **(1)** – 166 **(1)** = 8134; 9340 – 8134 = 1206. **(1)**
Trade payables:
22 840 × 5% = 1142 **(1)**; 22 840 – 21 698 = 1142 **[13]**

(b)

Partners' Capital Accounts

	A	B	C		A	B	C
	$	$	$		$	$	$
				Bal. b/d	80 000	60 000	20 000 **(1)**
Current a/c			2 628	Current a/c	12 735	10 873 **(1)**	
				Realisation	1 692 **(1)OF**	1 692 **(1)OF**	846 **(1)OF**
Real. – M. V	4 000 **(1)**	4 000 **(1)**					
Bank	90 427	68 565	18 218 **3(OF)**				
	94 427	72 565	20 846		94 427	72 565	20 846

[10]

(c)

Bank Account

	$		$
Bal. b/d	2 546 **(1)**	Trade payables	21 698 **(1)OF**
Trade receivables	8 134 **(1)OF**	Dissolution costs	2 250 **(1)**
Realisation a/c	265 478 **(1)OF**	Loan – Aston	75 000 **(1)**
		Cap. a/c	A 90 427 **(1)OF**
			B 68 565 **(1)OF**
			C 18 218 **(1)OF**
			177 210
	276 158		276 158

Realisation a/c
217 000 + 25 000 + 5000 + 18 478 = 265 478 **[9]**

(d) RR – Retained earnings, general reserve. **(1)**
CR – Share premium, capital redemption reserve, revaluation reserve. **(1)** **[2]**

(e) **(i)** A provision is a liability **(1)** of uncertain timing and amount. **(1)**

(ii) A contingent liability is a possible liability from a past event **(1)** whose existence will be confirmed by the occurrence or non-occurrence of an uncertain event. **(1)**

(iii) A contingent asset is a possible asset from a past event **(1)** whose existence will be confirmed by the occurrence or non-occurrence of an uncertain event. **(1)** **[6]**

[Total: 40]

2 **(a)**

Wotknot Limited
Income Statement for the year ended 30 April 2014

Revenue ($600 000 ÷ 60%)		1 000 000	**(2)**
Opening inventory (50% × $80 000)	40 000 **(1)**		
Purchases (balancing figure)	640 000 **(1)**		
	680 000		
Closing inventory	(80 000)		
Cost of sales		600 000	**(1)**
Gross profit		400 000	**(1)OF**
Administrative expenses		(140 000)	**(1)**
Distribution expenses (balancing figure)		(70 000)	
Profit from operations		190 000	**(1)OF**
Finance costs ($50 000 × 10%)		(5 000)	**(1)**
Profit for the year		185 000	**(1)OF**

[10]

(b) Statement of changes in equity for the year ended 30 April 2014

Profit for the year	185 000	**(1)OF**
Transfer to general reserve	(20 000)	**(1)**
Dividends paid (200 000 × $0.08)	(16 000)	**(1)**
Retained earnings b/fwd	(40 000)	**(1)**
Retained earnings c/fwd	109 000	**(1)OF**

[5]

(c)

Wotknot Limited
Statement of Financial Position at 30 April 2014

Assets		
Non-current assets ($1 000 000 × 0.2)	200 000	**(2)**
Current assets		
Inventory	80 000	**(1)**
Trade receivables ($1 000 000 × 40 ÷ 365)	109 589	**(2)OF**
	189 589	
Total assets	389 589	
Equity and liabilities	100 000	
Ordinary shares	60 000	**(1)**
General reserve ($40 000 + $20 000)	109 000	**(1)OF**
Retained earnings	269 000	
Total equity		
Non-current liabilities		
10% Debenture	50 000	**(1)**
Current liabilities		
Trade payables ($640 000 × 35 ÷ 365)	61 370	**(2)OF**
Bank overdraft	9 219	**(2)CF (1)OF**
	70 589	
Total liabilities	389 589	

[12]

(d)

Ratio	Wotknot Limited	Siri Limited
Inventory turnover	10 times	15 times
Gross profit margin	40%	45%
Operating profit margin	19% **(1)OF**	15%
Current ratio	2.69:1 **(1)OF**	2:1
Trade receivables turnover	40 days	35 days
Trade payables turnover	35 days	28 days
Dividend yield	5% **(1)**	12%
Gearing*	19% **(1)**	60%

* Alternative methods acceptable.

Comments:

1 Siri Limited has a better inventory turnover **(1)** and gross profit margin **(1)**. This indicates they are more efficient in selling their inventory **(1)**.

2 However Wotknot Limited has a better operating profit margin **(1)** which indicates they are more efficient in managing their expenses **(1)**.

3 The current ratio of Wotknot Limited is better than Siri Limited **(1)**. However the bank overdraft of Wotknot Limited may indicate poor inventory control **(1)**.

4 Both businesses are efficient in collecting their debts although Siri Limited has a shorter period **(1)** which is better **(1)**.

5 Both businesses pay their suppliers before collecting their cash from customers which is **not** good **(1)**. Siri Limited retain their cash in the business for longer which is better **(1)**, which may be a cause of Wotknot Limited's bank overdraft **(1).**

6 Siri Limited has a better dividend yield **(1)**, but a worse gearing ratio **(1)**. This will be a problem if interest rates increase **(1)**, as their profit available to pay dividend will reduce, reducing the dividend paid **(1)**.

[Max 13]

[Total: 40]

3 **(a)**

Process 1

	$		$
Direct materials	252 000 **(1)**	Scrap	9 000 **(2)OF**
Direct labour	210 000 **(1)**	Process 2	600 000 **(1)**
Variable overhead	63 000 **(1)**		
Fixed overhead	84 000 **(1)**		
	609 000		609 000

[7]

(b) (i) 9000 **(1)OF** ÷ 18 **(1)** = 500 **(1)OF** **[3]**

(ii) $\frac{500 \quad \textbf{(1)OF}}{10\,500 \ \textbf{(1)OF}} \times 100 = 4.76\%$ **(1)OF** **[3]**

(c) Work-in-progress

	$
Process 1	120 000 **(1)**
Direct materials	8 000 **(1)**
Direct labour	26 400 **(1)**
Variable overheads	7 200 **(1)**
	161 600 **(1)OF**

[5]

(d)

Process 2

	$		$
Process 1	600 000 **(1)**		
Direct materials		Work-in-progress	161 600 **(1)OF**
40 000 **(1)** + 8 000 **(1)OF**	48 000		
Direct labour		Finished goods	904 000 **(1)OF**
264 000 **(1)** + 26 400 **(1)OF**	290 400		
Variable overhead			
72 000 **(1)** + 7 200 **(1)OF**	79 200		
Fixed overhead	48 000 **(1)**		
	1 065 600		1 065 600

[10]

(e)

	$	$
Total net costs to date		1 065 600 **(1of)**
Costs to complete		
Direct materials	2 000 **(1of)**	
Direct labour	39 600 **(1of)**	
Variable overhead	10 800 **(1of)**	
Fixed overhead	12 000 **(1of)**	
Total costs to complete		64 400 **(1of)**
Final total costs		1 130 000 **(1of)**

[7]

(f) The usual sales price would be $1 412 500. **(1)OF**
This sales price is $232 500 less than that. **(1)OF**
There is still a positive contribution **(1of)** of $194 000. **(1)OF**
There is still a positive profit **(1of)** of $50 000. **(1)OF**
The expected mark-up was 4.4%. **(1)OF**
There may be an effect on other customers. **(1)**
Will other customers demand lower prices? **(1)**
Could these Albas be resold on the open market? **(1)** **[Max 5]**

[Total: 40]