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

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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]