CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/43 Paper 4 (Problem Solving – Supplement), maximum raw mark 120

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CAMBRIDGE
International Examinations

1 (a)

Pitman plc
Income statement for the year ended 30 June 2015

		$		$	
Revenue				563 800	
Cost of sales:					
Opening inventories		62 400			
Purchases		268 200			
		330 600			
Closing inventories		(70 300)		(260 300)	**(1)**
Gross profit				303 500	**(1)OF**
Administrative expenses	**W1**	159 733	**(6)**		
Distribution costs		36 120		(195 853)	
Profit from operations				107 647	**(1)OF**
Finance costs				(625)	**(1)**
Profit before taxation				107 022	
Taxation				(12 650)	**(1)**
Profit for the year				94 372	**(1)OF**

Workings

W1 Administrative expenses
141 970 + 1300 **(1)** + 1920 **(1)** + 5600 **(1)** + 7200 **(1)** + 1743 **(1)** = 159 733 **(1)**of **[12]**

(b)

Pitman plc
Statement of financial position at 30 June 2015

		$	
Assets			
Non-current assets			
Property, plant and equipment	**W1**	159 540	**(5)**
Current assets			
Inventories		70 300	
Trade and other receivables	**W2**	69 017	**(3)**
Cash and cash equivalents	**W3**	73 150	**(3)**
		212 467	
Total assets		372 007	
Equity and liabilities			
Equity			
Ordinary share capital ($1 shares)		75 000	**(1)**
Retained earnings		125 112	**(1)OF**
Share premium		7 500	**(1)**
Revaluation reserve		20 000	**(1)**
		227 612	
Non-current liabilities			
5% debentures (2024)		50 000	
Current liabilities			
Trade and other payables	**W4**	81 745	**(2)OF**
Taxation		12 650	**(1)**
		94 395	
Total equity and liabilities		372 007	

[18]

Workings

W1 Land = 70 000 + 20 000 = 90 000
Buildings = 65 000 – 21 840 -1300 = 41 860
Fixtures & fittings = 18 110 – 5310 – 1920 = 10 880
Motor vehicles = 41 600 – 19 200 – 5600 = 16 800
Property, plant & equipment
= 90 000 **(1)** + 41 860 **(1)** + 10 880 **(1)** + 16 800 **(1)** = 159 540 **(1)OF**

W2 Trade & other receivables
= 76 920 – 7200 **(1)OF** – 1743 **(1)OF** + 1040 **(1)** = 69 017

W3 Cash & cash equivalents
= 650 + 50 000 **(1)** + 22 500 **(1)** = 73 150 **(1)OF**

W4 Trade & other payables
= 80 250 + 870 + 625 **(1)OF** = 81 745 **(1)OF**

(c) Impairment is the reduction in value if the recoverable amount is below the carrying amount. **(1)**
Recoverable amount is the higher of net realisable value and value in use. **(1)**
It is accounted for by reducing the value of the asset by the impaired amount **(1)** and writing off this amount to the income statement. **(1)** **[4]**

(d) Carrying amount = 6000 – 900 – 765 **(1)** = $4335 **(1)OF**
Recoverable amount = $4000 **(1)**
Since the recoverable amount is less than the carrying amount, the fixture is impaired **(1)** by $335 **(1)OF** and the directors are correct. **(1)** **[max. 4]**

(e) Value in use = $5000. Since the value in use is greater than the carrying amount **(1)** the fixture would not be impaired. **(1)** **[2]**

[Total: 40]

2 **(a)** Calculation of percentage increase in profit for the year.

Profit for y/e	30/6/2012	40 000
Profit for y/e	30/6/2013 (40 000 × 1.06)	42 400
Profit for y/e	30/6/2014 (42 400 × 1.06)	44 944 **(1)**

Profit % increase for y/e 30/6/2015:

$$\frac{50\,562 - 44\,944}{44\,944} \times 100\% = \frac{5618\ \textbf{(1)OF}}{44\,944\ \textbf{(1)OF}} \times 100\% = 12.5\%\ \textbf{(1)OF}$$

[4]

(b) Appropriation account for the year ended 30 June 2015

		$		$	
Profit for y/e 30/6/2015				50 562	
Add interest on drawings:					
	B	1 920	**(1)**		
	C	1 350	**(1)**		
	D	270	**(1)**	3 540	
				54 102	
Deduct interest on capital:					
	B	2 160			
	C	1 500			
	D	1 120		(4 780)	**(1)**
Deduct salary:					
	D	6 000		(6 000)	**(1)**
Profit to be shared in PSR				43 322	
	B			21 661	
	C			14 441	
	D			7 220	**(1)OF (correct ratio)**
				43 322	

[6]

(c) Current accounts

	B $	C $	D $		B $	C $	D $
Balance b/d			2 500	Balance b/d	17 500	9 500	**(1)**
Int. on drawings	1 920	1 350	270 **(1)OF**	Int. on capital	2 160	1 500	1 120 **(1)OF**
Drawings	32 000	30 000	18 000 **(1)**	Salary			6 000 **(1)**
				Profits	21 661	14 441	7 220 **(1)OF**
Balance c/d	7 401			Balance c/d		5 909	6 430
	41 321	31 350	20 770		41 321	31 350	20 770
Balance b/d		5 909	6 430	Balance b/d	7 401		**(1)OF**

[7]

(d) The partners will not be liable for the debts of the new business/limited liability **(1)**
Easier to obtain capital for future expansion and investment. **(1)** **[2]**

(e) (i)

Realisation account

	$				$	
Non-current assets	170 000		Trade payables		234 727	**(1)**
Inventories	65 000		Edrich Ltd	**W1**	169 792	**(2)OF**
Trade receivables	92 450	**(1)ALL**				
Dissolution costs	1 500	**(1)**				
Profit – capital a/c's	75 569	**(1)OF**				
	404 519				404 519	

[6]

W1 40 000 + 42 400 + 44 944 = 127 344 **(1)** ÷ 3 = 42 448 × 4 = 169 792 **(1)OF**

(ii)

Capital accounts

	B	C	D		B	C	D
	$	$	$		$	$	$
Current a/c		5 909	6 430	Balance b/d	54 000	37 500	28 000 **(1)**
Debentures	33 333	33 333	33 334 **(1)**	Current a/c	7 401		**(1)OF**
Ord. Shares	34 896	23 264	11 632 **(1)OF**	Profit	37 784	25 190	12 595 **(1)OF**
Bank	30 956	184		Bank			10 801 **(1)OF**
	99 185	62 690	51 396		99 185	62 690	51 396

[6]

(iii)

Bank account

	$			$	
Balance b/d	21 839	**(1)**	Realisation costs	1 500	**(1)**
			Capital – B	30 956	
Capital – D	10 801		– C	184	**(1)OF**
	32 640			32 640	

[3]

(f) Edrich Limited – Statement of financial position at 1 July 2015

		$	$	
Non-current assets			150 000	**(1)**
Goodwill	**W1**		102 069	**(1)OF**
			252 069	
Current assets				
Inventories		60 000		
Trade receivables		92 450	152 450	
Total assets			404 519	
Equity & liabilities				
Equity				
Ordinary share capital			50 000	**(1)**
Share premium			19 792	**(1)OF**
			69 792	
Non-current liabilities				
5% Debentures (2026)			100 000	**(1)**
Current liabilities				
Trade payables			234 727	**(1)**
			404 519	

W1 169 792 – (210 000 + 92 450 – 234 727) **[6]**

[Total: 40]

3 (a) Original budget

		$	
Sales	1000 × 130	130 000	
Direct material	600 × 18	10 800	**(1)ALL**
Direct labour	1500 × 7.5	11 250	
Variable overheads		28 000	**(1)**
Contribution		79 950	**(1)OF**
Fixed overheads		34 000	
Profit		45 950	**(1)OF**

[4]

(b) Flexed budget

		$
Sales	1200 × 130	156 000 **(1)**
Direct material	720 ×18	12 960 **(1)**
Direct labour	1800 × 7.5	13 500 **(1)**
Variable overheads		33 600 **(1)**
Contribution		95 940 **(1)OF**
Fixed overheads		34 000
Profit		61 940 **(1)OF**

[6]

(c) Actual results

		$
Sales	1200 × 132	158 400 **(1)ALL**
Direct material	780 × 14	10 920
Direct labour	2050 × 8.5	17 425
Variable overheads		35 100 **(1)**
Contribution		94 955 **(1)OF**
Fixed overheads		34 100
Profit		60 855 **(1)OF**

[4]

(d) Actual costs

		$	
Actual costs	10 920 **(1)** + 17 425 **(1)**	28 345 **(1)OF**	
Material price variance	780 × 4	3 120 **(1)**	**F (1)**
Material usage variance	60 × 18	(1 080) **(1)**	**A (1)**
Labour rate variance	2050 × 1	(2 050) **(1)**	**A (1)**
Labour efficiency variance	250 × 7.50	(1 875) **(1)**	**A (1)**
Budgeted costs		26 460 **(1)OF**	

[12]

(e) Material price variance was favourable **(1)** since lower quality materials leads to lower price **(1)**

Material usage variance was adverse **(1)** as lower quality means more wastage and hence more is purchased **(1)**

Labour efficiency variance was adverse **(1)** as lower quality materials are harder to work with and more hours are taken **(1)**

Labour rate variance was adverse **(1)** as the increase in hours worked led to more hours being paid at overtime rates **(1)** **[8]**

(f) The total material price variance was favourable
However actual total direct costs were higher than budgeted
Actual contribution was lower than budgeted
Increased direct costs were able to be passed on to customers via the increased selling price
Variable overheads may have increased due to the increase in material usage or the increase in hours worked
The increase in sales units suggests that units made with the new material are possibly more popular
The usual material might not have been available.

1 mark per point up to a maximum of 5 marks
1 mark for conclusion **[6]**

[Total: 40]