CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the May/June 2013 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 (a) Partners' capital accounts

	A	B	C		A	B	C
	$	$	$		$	$	$
				Bal. b/d	40 000	27 500	49 000 (1)
Goodwill		45 000	45 000 (1)	Goodwill	45 000	30 000	15 000 (1)
				Revaluation	12 000	8 000	4 000 (1)
Loan a/c	50 000 (2)						
Cash	47 000 (1)of (1)cf						
Bal. c/d		20 500	23 000 (1)of				
	97 000	65 500	68 000		97 000	65 500	68 000
				Bal. b/d		20 500	23 000(1) of

[10]

(b) Income statement and appropriation account for the year ended 31 December 2012

	$	
Gross profit	250 000	
Inventory adjustment	(10 000)	
Adjusted gross profit	240 000	(1)

		9 months to 30/9/2012			3 months to 31/12/2012		
		$	$		$	$	
Gross profit			180 000			60 000	(1) of
Salaries		82 500			27 500		
Sundry expenses		21 375			7 125		(1) both
Rent		9 000			3 000		(1)
Electricity		6 375			2 125		(1)
Loan interest					1 250		(1)
			(119 250)			(41 000)	
Profit from operations			60 750			19 000	(1) of
Deduct: Salary	C		(9 000) (1)	B		(2 500)	(1)
Interest on cap.	A	2 400 (1) of					
	B	1 650 (1) of		B	205 (1)of		
	C	2 940 (1) of	(6 990)	C	230 (1)of	(435)	
			44 760			16 065	
Profits	A		22 380				
	B		14 920			8 032	
	C		7 460 (1) of			8 033 (1) of	
			44 760			16 065	

[16]

(c) Partners' current accounts

	A	B	C		A	B	C
	$	$	$		$	$	$
				Bal. b/d	7 940	4 675	3 825 (1)
				Salaries		2 500	9 000 (1)
				Int. on cap.	2 400	1 855	3 170(1)of
				Profits	22 380	22 952	15 493(1)of
Cash	32 720 (1)of (1)cf						
Bal c/d		31 982	31 488(1) of				
	32 720	31 982	31 488		32 720	31 985	31 490
				Bal. b/d		31 982	31 488(1)of

[8]

(d) Participating Preference Shares – Fixed rate of dividend if sufficient profit. (1)
Arrears paid in later years if dividend not paid. (1)
Dividend paid before ordinary share dividend. (1)
Capital returned to investor prior to ordinary shareholder on winding up. (1)
Convertible loan stock – Fixed interest rate. (1)
Right to convert to shares at agreed price on agreed date. (1)
Therefore usually lower interest rate than debentures. (1)
Risk that market price may be lower than agreed price. (1)
1 mark for each valid point – maximum 3 for each term. **[6]**

[Total: 40]

2 (a) Statement of cost, accumulated depreciation and net book value at 31 December 2012

	$000	
Cost at 1 January 2012	2000	
Additions	100	**(1)**
Disposals	(200)	**(1)**
Cost at 31 December 2012	1900	
Accumulated depreciation at 1 January 2012	200	
Depreciation on disposals	(50)	**(1)**
Charge for the year (1900 – 150 $\times$ 10%)	175	**(3 or 1OF)**
Accumulated depreciation at 31 December 2012	325	
Net book value at 31 December 2012	1575	**(1OF)**
Net book value at 31 December 2011	1800	**(1)**

[8]

(b) Manik Limited Income Statement for the year ended 31 December 2012

	$000	
Revenue	4000	
Cost of sales	1000	
Gross profit	3000	**(1, but must be labelled)**
Administrative expenses (1700 – 20 **(1)** – 15 **(1)** + 175 **(1OF)**)	(1840)	
Distribution costs (450 + 20 **(1)**)	(470)	
Profit from operations	690	**(1OF, must be labelled)**
Loss on disposal of non-current asset	(5)	**(1OF)**
Finance costs (300 × 10%)	(30)	**(1)**
Profit before tax	655	**(1OF, must be labelled)**
Tax	(365)	**(1)**
Profit for the year attributable to equity holders	290	**(1OF, must be labelled)**

[11]

(c) Statement of changes in equity for the year ended 31 December 2012

Details	Ordinary Shares $000	Share Premium $000	Retained Earnings $000	Total $000
At 31 December 2011	500 **(1)**	–	265 **(1)**	765
Shares issued	500 **(1)**	250 **(1)**		750
Profit for year attr. to equity holders			290 **(1OF)**	290
Dividends paid			(75) **(2)**	(75)
At 31 December 2012	1000 **(1)**	250 **(1)**	480 **(1OF)**	1730

[10]

(d) Statement of financial position at 31 December 2012

	$000	
Non-current assets		
Plant and machinery (NBV)	1575	**(1OF)**
Current assets		
Inventory	400	
Trade receivables	385	
Other receivables	15	**(1)**
Cash and cash equivalents	170	
	970	
Current liabilities		
Trade payables	120	
Tax	365	
Other payables (20 + 10)	30	**(2)**
	515	
Non-current liability – Loan	300	
Net assets	1730	
Equity		
Ordinary shares of $1 each	1000	**(1)**
Share premium	250	**(1)**
Retained earnings	480	**(1OF)**
Shareholders' funds	1730	**(1OF, if labelled)**

[8]

(e) Proposed dividends are a non-adjusting event **(1)**
They are not included in the financial statements for the year ended 31 December 2012 **(1)**
They are shown as a note to the accounts for that year **(1)**

[3]

[Total: 40]

3 (a) (i) Production Budget

	Jan		Feb		March		April		[illegible]	
Sales (units)	10 000		11 000		11 000		12 000		12 [illegible]	
+ Closing inventory	2 200	**(1)**	2 200	**(1)**	2 400	**(1)**	2 400	**(1)**	2 800	
	12 200		13 200		13 400		14 400		14 800	
– Opening inventory	2 000	**(1)**	2 200		2 200		2 400		2 400	
Budgeted production (units)	10 200	**(1of)**	11 000	**(1of)**	11 200	**(1of)**	12 000	**(1of)**	12 400	**(1of)**

[11]

(ii) Purchases Budget

	Jan		Feb		March		April	
Raw materials used (kilos)	5 100		5 500		5 600		6 000	
+ Closing inventory	2 750	**(1of)**	2 800	**(1of)**	3 000	**(1of)**	3 100	**(1of)**
	7 850		8 300		8 600		9 100	
– Opening inventory	2 550	**(1of)**	2 750		2 800		3 000	
Budget purchases (kilos)	5 300		5 550		5 800		6 100	
(value)	$15 900	**(1of)**	$16 650	**(1of)**	$17 400	**(1of)**	$18 300	**(1of)**

[9]

(b) Value of finished goods

1 January 2014		$	
Raw materials	(2550 × $3)	7 650	**(1)**
Finished goods	(2000 × $11)	22 000	**(1)**
		29 650	
30 April 2014			
Raw materials	(3100 × $3)	9 300	**(1of)**
Finished goods	(2400 × $11)	26 400	**(1of)**
		35 700	

[4]

(c) (i) Summarised manufacturing account for four months ending 30 April 2014

	$	
Inventory of raw materials at 1 January	7 650	
Purchases of raw materials	68 250	**(1of)**
	75 900	
Inventory of raw materials at 30 April	(9 300)	**(1of) both**
Cost of raw materials consumed (44 400 × 1.5)	66 600	**(1)**
Direct labour and production overheads [44 400 × (11 – 1.5)]	421 800	**(1of)**
Cost of production (44 400 × 11)	488 400	**(2)**

[6]

(ii) Summarised income statement for four months ending 30 April 2014

	$		$	
Revenue (44 000 units)			903 000	**(1)**
Inventory of finished goods at 1 January	22 000			
Cost of production	488 400	**(1of)**		
	510 400			
Inventory of finished goods at 30 April	(26 400)	**(1of) both**		
Cost of sales			484 000	**(2)**
Gross profit			419 000	**(1of)**

[6]

(d) Advantages
– requires planning/co-ordination/communication
– can be a motivator
– causes more efficient use of resources
– leads to cost control.

Other sensible comment rewarded. **Any two × 1 mark**

Disadvantages
– poor data lead to poor decisions
– without consultation budgets can be a demotivator
– if undemanding can lead to underachievement
– can cause conflict.

Other sensible comment rewarded. **Any two × 1 mark** **[4]**

[Total: 40]