

**MARK SCHEME for the May/June 2012 question paper
for the guidance of teachers**

9706 ACCOUNTING

9706/42

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

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1 (a) Asterix plc – manufacturing account, and income statement for y/e 30 April 2012.

	\$000		\$000
Raw materials at 1/5/2011	140	1	
Purchases of raw materials	1 450	1	
Carriage inwards	<u>130</u>	1	
	1 720		
Raw materials at 30/04/2012	<u>(235)</u>	1	1 485
Direct labour			<u>1 675</u>
Prime cost (1)			3 160
Factory overheads			1 420
Factory depreciation			<u>100</u>
			4 680
Work in progress at 1/5/2012	165		
Work in progress at 30/4/2012	<u>(320)</u>		<u>(155)</u>
Factory cost of goods produced			4 525
Factory profit @ 20%			<u>905</u>
Transferred to trading account			<u>5 430</u>
Revenues			6 500
Deduct: Cost of sales			
Finished goods at 1/5/2011	330		
Manufacturing account	<u>5 430</u>	10F	
5 760			
Finished goods at 30/4/2012	<u>(438)</u>	1	<u>(5 322)</u>
Gross profit			1 178
Office overheads	990	2	
Carriage outwards	75	1	
Office depreciation	<u>50</u>	1	<u>(1 115)</u>
Net profit on trading			63
Factory profit	905	10F	
Less increase in PUP	<u>(18)</u>	3	<u>887</u>
Overall net profit			<u>950</u>

Factory overheads 1 350 1 + 700 1 = 2050

Office overheads 1 025 1 – 35 1 = 990

Increase in PUP $108 \text{ 1} \times \frac{20}{120} \text{ 1} = 18 \text{ 10F}$

[26]

(b) Asterix plc – extract of statement of financial position at 30 April 2012.

Raw materials		235	1
Work in progress		320	1
Finished goods	438	1	
Less PUP	<u>(73)</u>	2	
		<u>365</u>	
		<u>920</u>	10F

[6]

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(c) A qualifying asset is an asset that takes a substantial period of time to get ready for use or sale. **1**

The interest related to the acquisition should be capitalised **1** as soon as preparation starts. **1**

Capitalisation ceases when the activities required for the preparation are complete. **1**

All such assets should be treated in the same way **1** [5]

(d) If the carrying value is greater than the recoverable amount the asset is impaired. **1**

Write down asset to recoverable amount on statement of financial position. **1**

Amount of loss treated as an expense in income statement. **1** [3]

[Total 40]

2 (a) Income statement and appropriation account for the year ended 31 December 2011

	\$	\$
Profit from operations		117 200
Bank interest	700 1	
Interest on loan from Creakle	<u>1 000</u> 2	<u>1 700</u>
		115 500 10F
Interest on capital	nil	
Salaries	nil	
Shares of profit		
H	38 500	
C	38 500	
Q	<u>38 500</u> 10F	<u>115 500</u>

IOC and salaries do not need to be shown for marks.

Shares of profit to be in correct ratio. [5]

(b) H 61 000 **1**

C 32 000 **1** + 500 **1** = 32 500 **1**

Q 40 000 **1** + **1**

[6]

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(c)	H	C	Q	
	\$	\$	\$	
Original balance	3 500	(6 250)	(14 250)	
– IOC	(5 000)	(5 000)	(5 000)	1
– Salary	(18 000)	–	–	
– Original profit	(41 500)	(20 750)	(20 750)	
+ Revised profit	38 500	38 500	38 500	10F
– Original interest		(500)		
+ Revised interest		1 000		10F
	(22 500)	7 000	1 500	10F

[4]

Alternative approach

	H	C	Q	
	\$	\$	\$	
Profit	38 500	38 500	38 500	10F
Interest		1 000		10F
Drawings	(61 000)	(32 500)	(40 000)	10F
Balance	(22 500)	7 000	(1 500)	10F

[4]
[max 4]

- (d)** Partnership is under-capitalised **1**. The fixed capital has paid for non-current assets **1** but not for working capital **1** Hexham's drawings are higher than the others' **1**. due to/justified by salary and higher profit share **1**.

Basic profitability good **1** ROCE = 77.1% **1**

Drawings higher than profits **1**.

No liquid funds **1**. Current ratio is 0.7:1 **1**. Quick ratio is 0.25:1 **1**

Other sensible comment to be rewarded.

[Max 8]

(e) Capital Accounts

	H	C	Q		H	C	Q		
	\$	\$	\$		\$	\$	\$		
Goodwill	6 000	6 000	---	1	Balance b/d	50 000	50 000	50 000	1
Current account			1 500	1	Goodwill	4 000	4 000	4 000	10F
Loan			57 500	10F	Premises	5 000	5 000	5 000	10F
Balance c/d	<u>53 000</u>	<u>53 000</u>	<u>---</u>			<u>59 000</u>	<u>59 000</u>	<u>59 000</u>	
	<u>59 000</u>	<u>59 000</u>	<u>59 000</u>		Balance b/d	53 000	53 000		10F

OFs for goodwill and premises should use split from **(b)**.

[7]

(f) Statement of Financial Position at 1 January 2012

	\$	\$	
Non-current assets			
Premises		125 000	
Other		<u>40 000</u>	
		165 000	1
Current assets	39 000		1
Current liabilities	<u>(56 000)</u>	<u>(17 000)</u>	
		148 000	
Long term loan to Quilp		<u>57 500</u>	10F
		<u>90 500</u>	
Fixed capital			
H	53 000		
C	<u>53 000</u>	106 000	10F
Current accounts			
H	(22 500)		
C	<u>7 000</u>	<u>(15 500)</u>	10F
		<u>90 500</u>	

[6]

(g) Q now receives $27\,000 + 5750 = 32\,750$ a year. **10F**

This is less than his share of profit. **10F**

Now he is only an employee with no control. **1**

As partnership is illiquid it may not pay the interest. **1**

The partnership may never pay back the loan. **1**

Q will not share in future growth of property value. **1**

Employment may offer better security. **1**

Other sensible comment to be rewarded.

[Max 4]

[Total: 40]

3 (a) A company sets a budget for a certain level of output **1**. If the actual level of activity is higher or lower than this level **1** the budgeted figures are adjusted/recalculated to the actual level **1** [3]

(b) With a fixed budget, the figures are not changed whatever the actual level of output **1**. This means that if the actual level is different from the budget level of activity any comparison between the two will not be any help to management **1**. It will be difficult to identify the reason for any difference **1** or what actions to take to correct any problems **1** [4]

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(c) Production budget for months 1–3 (all figures in units)

Month	1	2	3	
Sales	1200	1400	1600	1
Opening inventory	(200)	(180)	(160)	1 for all 3
Closing inventory	180	160	140	1
Production	1180	1380	1580	1

[8]

(d) Calculation of break even point:

	\$	\$
Selling price unit		29
Direct material per unit	6	
Direct labour per unit	5	
Other variable overheads	<u>4</u> 3*	<u>15</u>
Contribution per unit		<u>14</u>
Fixed costs (15 000 + 23 500) = \$38 500	2*	
Break even point in units	$\frac{38\,500}{14} = 2\,750$	1 units × \$29 = \$79 750

[7]

*	Output in units	Total overheads \$
	4 000	31 000
	4 500	33 000
Change	500	1
		2 000
	1	1

$$\text{Variable cost per unit } \frac{\$2\,000}{500} = \$4 \text{ **1OF**}$$

$$\text{Fixed costs: } \$31\,000 - (4\,000 \times \$4 \text{ **1OF**}) = \$15\,000 \text{ **1OF**}$$

$$\text{OR } \$33\,000 - (4\,500 \times \$4 \text{ **1OF**}) = \$15\,000 \text{ **1OF**}$$

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(e) Flexible budget statement for Months 1–3.

Details	Actual \$	Budget \$	Variance \$	
Sales	123 200	127 600 1 for both	(4 400) 1	
Direct material	(35 200)	(26 400) 1 for both	(8 800) 1	
Direct labour	(17 600)	(22 000) 1 for both	4 400 1	
Factory overheads	(36 200)	(32 600) 1 for both	(3 600) 10F	
Other fixed costs	(18 000)	(23 500)	5 500	
Profit	16 200	23 100 10F	(6 900) 10F	[10]

(f) The selling price per unit was lower **1** perhaps to gain higher sales volume **1**. the direct material cost was higher than budget **1** which had a negative impact on profit **1**. the direct labour time taken was lower than budget **1** which had a positive effect on profit **1**. There was a positive net saving on factory and other fixed overheads **1**, but these could not offset the additional costs and reduce selling price which led to a lower profit than budgeted **1**. [8]

[Total 40]