

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.

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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 | <u>97 000</u> | <u>65 500</u> | <u>68 000</u> (1) of | | | | |
| | | | | Bal. b/d | <u>97 000</u> | <u>65 500</u> | <u>68 000</u> |
| | | | | | | 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 | <u>(10 000)</u> |
| Adjusted gross profit | <u>240 000</u> (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) |
| | | <u>(119 250)</u> | | <u>(41 000)</u> |
| 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 | 205 (1) of |
| B | 1 650 (1) of | | C | <u>230</u> (1) of <u>(435)</u> |
| C | <u>2 940</u> (1) of <u>(6 990)</u> | | | <u>16 065</u> |
| | | <u>44 760</u> | | |
| Profits A | | 22 380 | | |
| B | | 14 920 | | 8 032 |
| C | | <u>7 460</u> (1) of | | <u>8 033</u> (1) of |
| | | <u>44 760</u> | | <u>16 065</u> |

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(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 | <u>32 720</u> | <u>31 982</u> | <u>31 488</u> (1) of | | | | |
| | | | | Bal. b/d | <u>32 720</u> | <u>31 985</u> | <u>31 490</u> |
| | | | | | | 31 982 | 31 488 (1) of |

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- (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 | <u>(200)</u> | (1) |
| Cost at 31 December 2012 | <u>1900</u> | |
| Accumulated depreciation at 1 January 2012 | 200 | |
| Depreciation on disposals | (50) | (1) |
| Charge for the year (1900 – 150 × 10%) | <u>175</u> | (3 or 10F) |
| Accumulated depreciation at 31 December 2012 | <u>325</u> | |
| Net book value at 31 December 2012 | 1575 | (10F) |
| Net book value at 31 December 2011 | 1800 | (1) |

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

| | | |
|---|--------------|----------------------------------|
| | \$000 | |
| Revenue | 4000 | |
| Cost of sales | <u>1000</u> | |
| Gross profit | 3000 | (1, but must be labelled) |
| Administrative expenses (1700 – 20 (1) – 15 (1) + 175 (10F)) | (1840) | |
| Distribution costs (450 + 20 (1)) | <u>(470)</u> | |
| Profit from operations | 690 | (10F, must be labelled) |
| Loss on disposal of non-current asset | (5) | (10F) |
| Finance costs (300 × 10%) | <u>(30)</u> | (1) |
| Profit before tax | 655 | (10F, must be labelled) |
| Tax | <u>(365)</u> | (1) |
| Profit for the year attributable to equity holders | <u>290</u> | (10F, 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 (10F) | 290 |
| Dividends paid | | | (75) (2) | (75) |
| At 31 December 2012 | 1000 (1) | 250 (1) | 480 (10F) | 1730 |

[10]

| | | | |
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(d) Statement of financial position at 31 December 2012

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

| | | | |
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3 (a) (i) Production Budget

| | Jan | Feb | March | April | May |
|-----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Sales (units) | 10 000 | 11 000 | 11 000 | 12 000 | 12 000 |
| + Closing inventory | <u>2 200</u> (1) | <u>2 200</u> (1) | <u>2 400</u> (1) | <u>2 400</u> (1) | <u>2 800</u> (1) |
| | 12 200 | 13 200 | 13 400 | 14 400 | 14 800 |
| – Opening inventory | <u>2 000</u> (1) | <u>2 200</u> | <u>2 200</u> | <u>2 400</u> | <u>2 400</u> |
| Budgeted production (units) | <u>10 200</u> (1of) | <u>11 000</u> (1of) | <u>11 200</u> (1of) | <u>12 000</u> (1of) | <u>12 400</u> (1of) |

[11]

(ii) Purchases Budget

| | Jan | Feb | March | April |
|----------------------------|--------------------|--------------------|--------------------|--------------------|
| Raw materials used (kilos) | 5 100 | 5 500 | 5 600 | 6 000 |
| + Closing inventory | <u>2 750</u> (1of) | <u>2 800</u> (1of) | <u>3 000</u> (1of) | <u>3 100</u> (1of) |
| | 7 850 | 8 300 | 8 600 | 9 100 |
| – Opening inventory | <u>2 550</u> (1of) | <u>2 750</u> | <u>2 800</u> | <u>3 000</u> |
| 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) | <u>22 000</u> (1) |
| | | <u>29 650</u> |
| 30 April 2014 | | |
| Raw materials | (3100 × \$3) | 9 300 (1of) |
| Finished goods | (2400 × \$11) | <u>26 400</u> (1of) |
| | | <u>35 700</u> |

[4]

| | | | |
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(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 | <u>68 250</u> | (1of) |
| | 75 900 | |
| Inventory of raw materials at 30 April | <u>(9 300)</u> | (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) | <u>488 400</u> | (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 | <u>488 400</u> | (1of) | |
| | 510 400 | | |
| Inventory of finished goods at 30 April | <u>(26 400)</u> | (1of) both | |
| Cost of sales | | | <u>484 000</u> (2) |
| Gross profit | | | <u>419 000</u> (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]