

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9706 ACCOUNTING

9706/41

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

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1 (a)

Realisation Account			
\$		\$	
Land and buildings	210 000	Trade payables	1 142 (1)
Plant and machinery	27 950	A – Motor vehicle	4 000 (1)
Motor vehicles	11 352	B – Motor vehicle	4 000 (1)
Inventories	17 632	Bank: Land and builds	217 000 (1)
Trade receivables	1 206 (3)	Plant and machinery	25 000 (1)
Dissolution costs	2 250 (1)	Motor vehicles	5 000
Cap. a/c A 1 692 (1) OF		Inventories	18 478 (1)
B 1 692 (1) OF			
C 846 (1) OF	4 230		
	<u>274 620</u>		<u>274 620</u>

Trade receivables:

9340 – 1040 (1) – 166 (1) = 8134; 9340 – 8134 = 1206. (1)

Trade payables:

22 840 × 5% = 1142 (1); 22 840 – 21 698 = 1142

[13]

(b)

Partners' Capital Accounts						
	A	B	C	A	B	C
	\$	\$	\$	\$	\$	\$
			Bal. b/d	80 000	60 000	20 000 (1)
Current a/c			2 628	12 735	10 873 (1)	
			Realisation	1 692 (1) OF	1 692 (1) OF	846 (1) OF
Real. – M. V	4 000 (1)	4 000 (1)				
Bank	<u>90 427</u>	<u>68 565</u>	<u>18 218 3(O)F</u>	<u>94 427</u>	<u>72 565</u>	<u>20 846</u>
	<u>94 427</u>	<u>72 565</u>	<u>20 846</u>	<u>94 427</u>	<u>72 565</u>	<u>20 846</u>

[10]

(c)

Bank Account			
\$		\$	
Bal. b/d	2 546 (1)	Trade payables	21 698 (1) OF
Trade receivables	8 134 (1) OF	Dissolution costs	2 250 (1)
Realisation a/c	265 478 (1) OF	Loan – Aston	75 000 (1)
		Cap. a/c	A 90 427 (1) OF
			B 68 565 (1) OF
			C 18 218 (1) OF
			<u>177 210</u>
	<u>276 158</u>		<u>276 158</u>

Realisation a/c

217 000 + 25 000 + 5 000 + 18 478 = 265 478

[9]

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- (d) RR – Retained earnings, general reserve. (1)
CR – Share premium, capital redemption reserve, revaluation reserve. (1) [2]

- (e) (i) A provision is a liability (1) of uncertain timing and amount. (1)
(ii) A contingent liability is a possible liability from a past event (1) whose existence will be confirmed by the occurrence or non-occurrence of an uncertain event. (1)
(iii) A contingent asset is a possible asset from a past event (1) whose existence will be confirmed by the occurrence or non-occurrence of an uncertain event. (1) [6]

[Total: 40]

2 (a)

Wotknot Limited			
Income Statement for the year ended 30 April 2014			
Revenue (\$600 000 ÷ 60%)		1 000 000	(2)
Opening inventory (50% × \$80 000)	40 000		(1)
Purchases (balancing figure)	640 000		(1)
	<u>680 000</u>		
Closing inventory	<u>(80 000)</u>		
Cost of sales		<u>600 000</u>	(1)
Gross profit		400 000	(1)OF
Administrative expenses		(140 000)	
Distribution expenses (balancing figure)		<u>(70 000)</u>	(1)
Profit from operations		<u>190 000</u>	(1)OF
Finance costs (\$50 000 × 10%)		<u>(5 000)</u>	(1)
Profit for the year		<u>185 000</u>	(1)OF

[10]

(b) Statement of changes in equity for the year ended 30 April 2014

Profit for the year		185 000	(1)OF
Transfer to general reserve		(20 000)	(1)
Dividends paid (200 000 × \$0.08)		(16 000)	(1)
Retained earnings b/fwd		<u>(40 000)</u>	(1)
Retained earnings c/fwd		<u>109 000</u>	(1)OF

[5]

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(c)

Wotknot Limited	
Statement of Financial Position at 30 April 2014	
Assets	
Non-current assets (\$1 000 000 × 0.2)	200 000 (2)
Current assets	
Inventory	80 000 (1)
Trade receivables (\$1 000 000 × 40 ÷ 365)	109 589 (2)OF
	<u>189 589</u>
Total assets	<u>389 589</u>
Equity and liabilities	
Equity and liabilities	100 000
Ordinary shares	60 000 (1)
General reserve (\$40 000 + \$20 000)	109 000 (1)OF
Retained earnings	<u>269 000</u>
Total equity	
Non-current liabilities	
10% Debenture	<u>50 000 (1)</u>
Current liabilities	
Trade payables (\$640 000 × 35 ÷ 365)	61 370 (2)OF
Bank overdraft	9 219 (2)CF (1)OF
	<u>70 589</u>
Total liabilities	<u>389 589</u>

[12]

(d)

Ratio	Wotknot Limited	Siri Limited
Inventory turnover	10 times	15 times
Gross profit margin	40%	45%
Operating profit margin	19% (1)OF	15%
Current ratio	2.69:1 (1)OF	2:1
Trade receivables turnover	40 days	35 days
Trade payables turnover	35 days	28 days
Dividend yield	5% (1)	12%
Gearing*	19% (1)	60%

* Alternative methods acceptable.

Comments:

- 1 Siri Limited has a better inventory turnover **(1)** and gross profit margin **(1)**. This indicates they are more efficient in selling their inventory **(1)**.
- 2 However Wotknot Limited has a better operating profit margin **(1)** which indicates they are more efficient in managing their expenses **(1)**.
- 3 The current ratio of Wotknot Limited is better than Siri Limited **(1)**. However the bank overdraft of Wotknot Limited may indicate poor inventory control **(1)**.
- 4 Both businesses are efficient in collecting their debts although Siri Limited has a shorter period **(1)** which is better **(1)**.
- 5 Both businesses pay their suppliers before collecting their cash from customers which is **not** good **(1)**. Siri Limited retain their cash in the business for longer which is better **(1)**, which may be a cause of Wotknot Limited's bank overdraft **(1)**.
- 6 Siri Limited has a better dividend yield **(1)**, but a worse gearing ratio **(1)**. This will be a problem if interest rates increase **(1)**, as their profit available to pay dividend will reduce, reducing the dividend paid **(1)**.

[Max 13]

[Total: 40]

3 (a)

Process 1			
	\$		\$
Direct materials	252 000 (1)	Scrap	9 000 (2)OF
Direct labour	210 000 (1)	Process 2	600 000 (1)
Variable overhead	63 000 (1)		
Fixed overhead	84 000 (1)		
	<u>609 000</u>		<u>609 000</u>

[7]

(b) (i) $9000 (1)OF \div 18 (1) = 500 (1)OF$

[3]

(ii) $\frac{500 (1)OF}{10\,500 (1)OF} \times 100 = 4.76\% (1)OF$

[3]

(c) Work-in-progress

	\$
Process 1	120 000 (1)
Direct materials	8 000 (1)
Direct labour	26 400 (1)
Variable overheads	7 200 (1)
	<u>161 600 (1)OF</u>

[5]

(d)

Process 2			
	\$		\$
Process 1	600 000 (1)		
Direct materials	40 000 (1) + 8 000 (1)OF	Work-in-progress	161 600 (1)OF
	48 000		
Direct labour	264 000 (1) + 26 400 (1)OF	Finished goods	904 000 (1)OF
	290 400		
Variable overhead	72 000 (1) + 7 200 (1)OF		
	79 200		
Fixed overhead	48 000 (1)		
	<u>1 065 600</u>		<u>1 065 600</u>

[10]

(e)

	\$	\$
Total net costs to date		1 065 600 (1of)
Costs to complete		
Direct materials	2 000 (1of)	
Direct labour	39 600 (1of)	
Variable overhead	10 800 (1of)	
Fixed overhead	<u>12 000 (1of)</u>	
Total costs to complete		64 400 (1of)
Final total costs		<u>1 130 000 (1of)</u>

[7]

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- (f) The usual sales price would be \$1 412 500. **(1)OF**
This sales price is \$232 500 less than that. **(1)OF**
There is still a positive contribution **(1of)** of \$194 000. **(1)OF**
There is still a positive profit **(1of)** of \$50 000. **(1)OF**
The expected mark-up was 4.4%. **(1)OF**
There may be an effect on other customers. **(1)**
Will other customers demand lower prices? **(1)**
Could these Albas be resold on the open market? **(1)**

[Max 5]

[Total: 40]