

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/43

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.

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1 (a)

Pitman plc
Income statement for the year ended 30 June 2015

	\$	\$	
Revenue		563 800	
Cost of sales:			
Opening inventories	62 400		
Purchases	<u>268 200</u>		
	330 600		
Closing inventories	<u>(70 300)</u>	<u>(260 300)</u>	(1)
Gross profit		303 500	(1)OF
Administrative expenses	W1 159 733		(6)
Distribution costs	<u>36 120</u>	<u>(195 853)</u>	
Profit from operations		107 647	(1)OF
Finance costs		<u>(625)</u>	(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	<u>159 540</u>	(5)
Current assets			
Inventories		70 300	
Trade and other receivables	W2	69 017	(3)
Cash and cash equivalents	W3	<u>73 150</u>	(3)
		<u>212 467</u>	
Total assets		<u>372 007</u>	
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		<u>20 000</u>	(1)
		<u>227 612</u>	
Non-current liabilities			
5% debentures (2024)		50 000	
Current liabilities			
Trade and other payables	W4	81 745	(2)OF
Taxation		<u>12 650</u>	(1)
		<u>94 395</u>	
Total equity and liabilities		<u>372 007</u>	

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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]

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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:		

$$\frac{50\,562 - 44\,944}{44\,944} \times 100\% = \frac{5\,618 \text{ (1)OF}}{44\,944 \text{ (1)OF}} \times 100\% = 12.5\% \text{ (1)OF} \quad [4]$$

(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	<u>270 (1)</u>	<u>3 540</u>
		54 102
Deduct interest on capital:		
B	2 160	
C	1 500	
D	<u>1 120</u>	(4 780) (1)
Deduct salary:		
D	<u>6 000</u>	<u>(6 000) (1)</u>
Profit to be shared in PSR		<u>43 322</u>
B		21 661
C		14 441
D		<u>7 220 (1)OF (correct ratio)</u>
		<u>43 322</u>

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(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	<u>7 401</u>			Balance c/d		<u>5 909</u>	<u>6 430</u>
	<u>41 321</u>	<u>31 350</u>	<u>20 770</u>		<u>41 321</u>	<u>31 350</u>	<u>20 770</u>
Balance b/d		5 909	6 430	Balance b/d	7 401		(1)OF

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(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)

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(e) (i)

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

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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
	<u>99 185</u>	<u>62 690</u>		<u>51 396</u>		<u>99 185</u>	<u>62 690</u>	<u>51 396</u>

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(iii)

		Bank account	
		\$	
Balance b/d	21 839 (1)	Realisation costs	1 500 (1)
Capital – D	10 801	Capital – B	30 956
	<u>32 640</u>	– C	184 (1)OF
			<u>32 640</u>

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

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

W1 169 792 – (210 000 + 92 450 – 234 727)

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[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		<u>28 000 (1)</u>
Contribution		79 950 (1)OF
Fixed overheads		34 000
Profit		<u><u>45 950 (1)OF</u></u>

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(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		<u>33 600</u>	(1)
Contribution		95 940	(1)OF
Fixed overheads		<u>34 000</u>	
Profit		<u>61 940</u>	(1)OF

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(c) Actual results

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

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(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	<u>(1 875)</u>	(1) A (1)
Budgeted costs		<u>26 460</u>	(1)OF

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- (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

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[Total: 40]