

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Level

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

Factory overheads 1 350 1 + 700 1 = 2050

Office overheads 1 025 1 – 35 1 = 990

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

[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) 2</u>	<u>365</u>	
		<u>920 10F</u>	

[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>			<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]

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(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 1	160 1	140 1
Production	1180 1	1380 1	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 3*</u>	<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 $\times \$29 = \$79\,750$ **1OF**

[7]

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

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

Fixed costs: \$31 000 – (4 000 \times \$4 **1OF**) = \$15 000 **1OF**
OR \$33 000 – (4 500 \times \$4 **1OF**) = \$15 000 **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]