**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

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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CAMBRIDGE
International Examinations

1 (a)

Realisation Account

| | $ | | | $ | |
|---|---|---|---|---|---|
| Land and buildings | 210 000 | | Trade payables | 1 142 | **(1)** |
| Plant and machinery | 27 950 | **(1)** | A – Motor vehicle | 4 000 | **(1)** |
| Motor vehicles | 11 352 | | B – Motor vehicle | 4 000 | |
| 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 | | | | |
| | 274 620 | | | 274 620 | |

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 | Current a/c | 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 | 90 427 | 68 565 | 18 218 **3(OF)** | | | | |
| | 94 427 | 72 565 | 20 846 | | 94 427 | 72 565 | 20 846 |

**[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** |
| | | | 177 210 |
| | 276 158 | | 276 158 |

Realisation a/c
217 000 + 25 000 + 5000 + 18 478 = 265 478 **[9]**

(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)** | | |
| | 680 000 | | |
| Closing inventory | (80 000) | | |
| Cost of sales | | 600 000 | **(1)** |
| Gross profit | | 400 000 | **(1)OF** |
| Administrative expenses | | (140 000) | **(1)** |
| Distribution expenses (balancing figure) | | (70 000) | |
| Profit from operations | | 190 000 | **(1)OF** |
| Finance costs ($50 000 × 10%) | | (5 000) | **(1)** |
| Profit for the year | | 185 000 | **(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 | (40 000) | **(1)** |
| Retained earnings c/fwd | 109 000 | **(1)OF** |

**[5]**

(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** |
| | 189 589 | |
| | | |
| Total assets | 389 589 | |
| | | |
| Equity and liabilities | 100 000 | |
| Ordinary shares | 60 000 | **(1)** |
| General reserve ($40 000 + $20 000) | 109 000 | **(1)OF** |
| Retained earnings | 269 000 | |
| Total equity | | |
| | | |
| Non-current liabilities | | |
| 10% Debenture | 50 000 | **(1)** |
| | | |
| Current liabilities | | |
| Trade payables ($640 000 × 35 ÷ 365) | 61 370 | **(2)OF** |
| Bank overdraft | 9 219 | **(2)CF (1)OF** |
| | 70 589 | |
| Total liabilities | 389 589 | |

**[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)** | | |
| | 609 000 | | 609 000 |

**[7]**

**(b) (i)** 9000 **(1)OF** ÷ 18 **(1)** = 500 **(1)OF** **[3]**

**(ii)** $\frac{500 \ \textbf{(1)OF}}{10\,500 \ \textbf{(1)OF}} \times 100 = 4.76\%$ **(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)** |
| | 161 600 **(1)OF** |

**[5]**

**(d)**

Process 2

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

**[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 | 12 000 **(1of)** | |
| Total costs to complete | | 64 400 **(1of)** |
| Final total costs | | 1 130 000 **(1of)** |

**[7]**

**(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]**