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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UNIVERSITY of CAMBRIDGE
International Examinations

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	130	**1**		
	1 720			
Raw materials at 30/04/2012	(235)	**1**	1 485	
Direct labour			1 675	**1**
Prime cost **(1)**			3 160	**1OF**
Factory overheads			1 420	**2**
Factory depreciation			100	**1**
			4 680	
Work in progress at 1/5/2012	165			
Work in progress at 30/4/2012	(320)		(155)	**1**
Factory cost of goods produced			4 525	**1OF**
Factory profit @ 20%			905	**1OF**
Transferred to trading account			5 430	**1OF**
Revenues			6 500	
Deduct: Cost of sales				
Finished goods at 1/5/2011	330			
Manufacturing account	5 430	**1OF**		
5 760				
Finished goods at 30/4/2012	(438)	**1**	(5 322)	
Gross profit			1 178	**1OF**
Office overheads	990	**2**		
Carriage outwards	75	**1**		
Office depreciation	50	**1**	(1 115)	
Net profit on trading			63	
Factory profit	905	**1OF**		
Less increase in PUP	(18)	**3**	887	
Overall net profit			950	**1OF**

Factory overheads 1 350 **1** + 700 **1** = 2050

Office overheads 1 025 **1** – 35 **1** = 990

Increase in PUP 108 **1** $\times \frac{20}{120}$ **1** = 18 **1OF** [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	(73)	**2**	365	
			920	**1OF**

[6]

(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	1 000	**2**	1 700	
			115 500	**1OF**
Interest on capital	nil			
Salaries	nil			
Shares of profit				
H	38 500			
C	38 500			
Q	38 500	**1OF**	115 500	

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]

(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	**1OF**	
– Original interest		(500)			
+ Revised interest		1 000		**1OF**	
	(22 500)	7 000	1 500	**1OF**	[4]

Alternative approach

	H	C	Q		
	$	$	$		
Profit	38 500	38 500	38 500	**1OF**	
Interest		1 000		**1OF**	
Drawings	(61 0000)	(32 500)	(40 0000)	**1OF**	
Balance	(22 500)	7 000	(1 500)	**1OF**	[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	**1OF**
Loan			57 500	**1OF**	Premises	5 000	5 000	5 000	**1OF**
Balance c/d	53 000	53 000	---						
	59 000	59 000	59 000			59 000	59 000	59 000	
					Balance b/d	53 000	53 000		**1OF**

OFs for goodwill and premises should use split from **(b)**. [7]

(f) Statement of Financial Position at 1 January 2012

	$	$	
Non-current assets			
Premises		125 000	
Other		40 000	
		165 000	**1**
Current assets	39 000 **1**		
Current liabilities	(56 000) **1**	(17 000)	
		148 000	
Long term loan to Quilp		57 500	**1OF**
		90 500	
Fixed capital			
H	53 000		
C	53 000	106 000	**1OF**
Current accounts			
H	(22 500)		
C	7 000	(15 500)	**1OF**
		90 500	[6]

(g) Q now receives 27 000 + 5750 = 32 750 a year. **1OF**

This is less than his share of profit. **1OF**

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]

(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</u> **3***	<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 × $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 × $4 **1OF**) = $15 000 **1OF**

OR $33 000 – (4 500 × $4 **1OF**) = $15 000 **1OF**

(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)	**1OF**	
Other fixed costs	(18 000)	(23 500)		5 500		
Profit	16 200	23 100	**1OF**	(6 900)	**1OF**	[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]