

## MARK SCHEME for the May/June 2008 question paper

### **9706 ACCOUNTING**

**9706/04**

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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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1 (a) Capital accounts (\$000)

	A	B	C		A	B	C
Goodwill w/o	36 (1)	24 (1)	12 (1)	Balances	75 (1)	60 (1)	63 (1)
Balances	<u>65</u>	<u>62</u>	<u>77</u>	Revaluation	<u>26</u>	<u>26</u>	<u>26</u> (4)
	<u>101</u>	<u>86</u>	<u>89</u>	Balances	<u>101</u>	<u>86</u>	<u>89</u>
					65	62	77 (1of)

(b) W1 Calculation of profit for the year

Profit	\$ 115 500 (1)
Interest on capital	15 840 (1)
Salary	14 000 (1)
Interest on drawings	<u>(1 340) (1)</u>
	<u>144 000</u>

(b) Profit and loss appropriation account for the year ended 31 March 2008

	\$	\$
Profit to 30 September		60 000 (1) (correct split)
Interest on drawings		<u>500</u> *
		60 500
Salary – A	7 000 (1)	
Interest on capital – A	3 000 (1)	
B	2 400 (1)	
C	<u>2 520 (1)</u>	<u>14 920</u>
		45 580
Share of residual profits – A	15 193	
B	15 193 (1of all)	
C	<u>15 194</u>	<u>45 580</u>
Profit to 31 March		84 000 (1) (correct split)
Interest on drawings		<u>840</u> * (1) (for both)
		84 840
Salaries – A	5 000 (1)	
B	<u>3 000 (1)</u>	<u>8 000</u>
		76 840
Interest on capital – A	1 950 (1of)	
B	1 860 (1of)	
C	<u>2 310 (1of)</u>	<u>6 120</u>
		70 720
Share of residual profits – A	35 360	
B	23 573 (1of all)	
C	<u>11 787</u>	<u>70 720</u>

(c) Current accounts

	A	B	C		A	B	C
Balance b/d		305		Balances	13 020		13 785
Drawings	46 000 (1)	44 000 (1)	31 000 (1)	Salaries	12 000 (1)	3 000	
Interest on dwg	684	504	152	Interest	4 950	4 260	4 830 (1)
Balances	<u>33 839 (1)</u>	<u>1 217 (1)</u>	<u>14 444 (1of)</u>	Profit	<u>50 553 (1)</u>	<u>38 766 (1)</u>	<u>26 981 (1of)</u>
	<u>80 523</u>	<u>46 026</u>	<u>45 596</u>		<u>80 523</u>	<u>46 026</u>	<u>45 596</u>
				Balances	33 839	1 217	14 444

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2 (a) Manufacturing account for the year ended 31 December 2007

	\$	
Purchases of raw materials	230 400	(1)
Direct wages	359 500	(1)
Manufacturing royalties	<u>17 100</u>	(1)
Prime cost	607 000	
Factory overheads	<u>215 000</u>	(1)
Total production cost	822 000	
Manufacturing profit	<u>304 140</u>	(1of)
Transfer price	<u>1 126 140</u>	(1of)

(b) Trading account for the year ended 31 December 2007(1)

	\$	
Stocks of finished goods	15 867	(1)      12 300 (1) × 129% (1)
Transfer price	<u>1 126 140</u>	(1of)
	1 142 007	
Stock	<u>18 769</u>	(1)
Cost of sales	1 123 238	(1of)
Gross profit	<u>626 762</u>	(1of)
Sales	<u>1 750 000</u>	(1)

(c) Provision for unrealised profit

	\$		\$
Balance c/d	<u>5069</u>	(5of) W2	Balance b/d      3567 (3of) W1
	<u>5069</u>		Profit and loss a/c <u>1502</u> (1of)
			<u>5069</u>
			Balance b/d      5069 (1of)

W1  $15867(1of) - 12\,300(1) = 3567(1of)$

W2  $\frac{30\,4140(1of) \times 100}{822\,000(1)} = 37\%$        $\frac{37}{137}(1of) \times 18769(1) = 5069(1of)$

(d) W1  $\frac{1\,126\,140(1of)}{4000} = \$281.535(1of)$

W2  $607\,000 + 43\,000 = \frac{650\,000}{4000}(1of) = \$162.50(1of)$

Contribution per unit = \$119.035(1of)

Break even =  $\frac{\$172\,000}{\$119.035 \text{ (as above)}}(1) = 1445 \text{ units}(1of)$

Margin of safety =  $4000(1) - 1445 = 2555 \text{ units}(1of)$

(e)  $1445(1of) \times \$281.535(1of) = \$406\,818(1of)$

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- (f) to keep resources working  
to cover fixed costs  
to maintain customer confidence etc.  
1 for identification plus 2 for development

**3** Cash budget for the three months ending 30 November 2008.

	September	October	November	
Receipts	\$	\$	\$	
Cash sales	5 200	5 600	6 000	(2) all 3 or (1) for 2
Credit sales	J 21 150 (1) A 20 520 (1)	A 21 600 (1) S 22 230 (1)	S 23 400 (1) O 23 940 (1)	
Share issue	<u>46 870</u>	<u>49 430</u>	<u>60 000 (1)</u> <u>113 340</u>	
Payments				
Materials	15 600 (1)	16 575 (1)	18 135 (1)	
Wages	10 100 (1)	10 600 (1)	10 750 (1)	
Overheads	26 000	24 500	24 750 (1)	
Interest		<u>12 000 (1)</u>	<u>53 635</u>	
	<u>51 700</u>	<u>63 675</u>	<u>53 635</u>	
Balance	(1 350) (1)	(6 180)	(20 425)	
Receipts	<u>46 870</u>	<u>49 430</u>	<u>113 340</u>	
	45 520	43 250	92 915	
Payments	<u>51 700</u>	<u>63 675</u>	<u>53 635</u>	
Balance	(6 180) (1of)	(20 425) (1of)	39 280 (1of)	but max 20 marks

**(b)** Notlimah Ltd.

Trading profit and loss and appropriation account for the three months ending 30 November 2008

	\$	\$	
Sales		168 000 (1)	
Less cost of sales			
Stock	4 700 (1)		
Purchases	<u>56 600 (1)</u>		
	61 300		
Stock	<u>5 700 (1)</u>	<u>55 600</u>	
Gross profit		112 400 (1of)	
Discounts received		<u>1 290 (1)</u>	
		113 690	
Less expenses			
Discounts allowed	3 510 (1)		
Wages	33 425 (1)		
Overheads	75 450 (1)		
Depreciation	1 250 (1)		
Interest	<u>6 000 (1)</u>	<u>119 635</u>	5000 × .25 = 1250
Retained loss for the three months		<u>5 945 (1of)</u>	(1) (1)

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- (c) A cash budget is a forecast whereas a cash flow statement is an historical document.  
A cash budget not required as a standard; a cash flow statement is required as a standard.  
A cash budget is used for planning and control purposes; a cash flow statement analyses cash movements for a previous time period  
2 marks for each difference
  
- (d) Do nothing it may only be a short term problem  
Arrange overdraft facilities  
If the overdraft will cause problems then make an attempt to reschedule some of the payments etc.  
1 mark for identification plus 1 mark for development.