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UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

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

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1 (a) Capital Accounts

	A	B	C	D			A	B	C	D	
	$	$	$	$			$	$	$	$	
Goodwill		66 000	33 000	33 000	**(2)**	Bal. b/d	42 500	32 000	28 000		**(1)**
Reval.	33 000	22 000	11 000		**(2)**	Cash		50 000		50 000	**(1)all**
Current a/c	75 500 **(1)**					Goodwill	66 000	44 000	22 000		**(2)**
Bal c/d		38 000 **(1) of**	6 000 **(1) of**	17 000 **(1) of**							
	108 500	126 000	50 000	50 000			108 500	126 000	50 000	50 000	
						Bal b/d		38 000	6 000	17 000	**(1) of**

[13]

(b) Appropriation account

1 July 2010 – 31 December 2010

	A		B		C		Total
	$		$		$		$
Salary	9 000	**(1)**					9 000
Interest on capital	1 275	**(1)**	960	**(1)**	840	**(1)**	3 075
Profit 3: 2: 1	5 963	**(1)**	3 975	**(1)**	1 987	**(1)**	11 925
							24 000

1 January 2011 – 30 June 2011

	B		C		D		Total
	$		$		$		$
Salary					5000	**(1)**	5 000
Interest on capital	1 140	**(1)**	180	**(1)**	510	**(1)**	1 830
Profit 2: 1: 1	8 585	**(1)**	4292.5	**(1)**	4292.5	**(1)**	17 170
							24 000

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(c) Current Accounts

	A	B	C	D			A	B	C	D	
	$	$	$	$			$	$	$	$	
Bal b/d		7 482				Bal. b/d	16 852		11 743		**(1)a**
Drawings	15 000	10 000	5 000	0	**(1)**	Salary	9 000			5 000	**(1)**
Drawings	0	10 000	5 000	5 000	**(1)**	Int. cap.	1 275	2100	1020	510	**(1)of**
Bank a/c	93590 **(1)**					Capital a/c	75500 **(1)**				
						Profit	5 963	12560	6279.5	4292.5	**(1)**
Bal c/d			9042.5	4802.5		Bal c/d		12822			
	108590	27482	19042.5	9802.5			108590	27482	19042.5	9802.5	
Bal b/d		12822				bal b/d			9042.5	4802.5	**(1)**

[9]

(d) Advantages:
Wider pool of knowledge/expertise.
Greater resources (capital etc.).
Share of losses when these arise.

Disadvantages:
All responsible for debts and errors of new partner.
Can slow decision making process.
Share of profits. [4 marks]
(Maximum 2 for adv. & 2 for disadv.)

[Total:40]

2 (a) Phoenicia Ltd Income Statement for the year ended 30 June 2011

			$	
Revenue			381 538	**(3)**
Less: Cost of sales				
Opening inventories	28 000			
Purchases	254 000	**(3)**		
	282 000			
Closing inventories	34 000	**(1)both**	248 000	**(3)**
Gross profit			133 538	**(1)**
Administrative expenses			(58 502)	
Distribution costs			(29 251)	**(3)**
Profit from operations/operating profit **(1)**			45 785	**(1)of**
Finance charges			(18 314)	**(1)of**
Profit for the year			27 471	
Dividends			(12 500)	**(1)of**
Retained profit for the year **(1)**			14 971	**(1)of**

Cost of sales 31 000 **(1)** × 8 000 **(1)** = 248 000 **(1)of**
Purchases 248 000 **(1)of** + 6 000 **(1)** = 254 000 (**1)of**
Revenue 248 000 **(1)of** / 65 × 100 **(1)** = 381 538 **(1)of** [20]

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(b)

	Algebra		Vector	
Gearing ratio	64.52%	**(1)**	75.95%	**(1)**
E.p.s.	$0.52	**(1)**	$0.90	**(1)**
P.E.ratio	4.81 times	**(1)of**	3.61 times	**(1)of**
Dividend cover	2.60 times	**(1)**	9.00 times	**(1)**
Dividend per share	$0.20	**(1)**	$0.10	**(1)**
Dividend yield	8.00%	**(1)**	3.08%	**(1)**

[12]

(c) Both companies are a risky source of investment. **(1)**
Both are highly geared **(1)** with Vector being the higher. **(1)**
E.p.s. is higher for Vector **(1)** and as o.s.c. is the same this would indicate a safer investment.
P.E. ratios are both relatively low **(1)** but Algebra is higher. **(1)**
Vector's dividend cover is higher **(1)** so if future profits fall dividends safer. **(1)**
Algebra's dividend per share is double Vector's dividend per share. **(1)**
Dividend yield of Algebra is also much higher than Vector. **(1)**
Overall, interpretation gives mixed messages. **(1)**
One mark for recommendation and one mark for each point up to maximum seven. [8]

[Total: 40]

3 (a)

	Alpha	Beta	Gamma	
	$	$	$	
Selling price	58	52	47	**(1)**
Direct labour	(12)	(15)	(9)	**(1)**
Direct material	(21)	(21)	(14)	**(1)**
Variable overheads	(12)	(10)	(10)	**(1)**
Contribution per unit	13	6	14	**(1)of** + **(1)cf**

[8]

(b)

	Alpha	Beta	Gamma	
	$	$	$	
Contribution per unit	13	6	14	**(1)of**
Fixed overheads	(3)	(2)	(3)	**(1)**
Profit per unit	10	4	11	**(1)of**

Profit for November 25 **(1)of** × 10 000 **(1)** = $250 000 **(1)of** [8]

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(c)

	Alpha		Beta		Gamma	
	$		$		$	
Contribution per unit	13		6		14	**(1)of**
Kilos per unit	3	**(1)**	3	**(1)**	2	**(1)**
Contribution per kilo	4.3		2		7	**(1)of**
Ranking	2		3		1	**(1)of**
Kilos required for full production					80 000	
Kilos available (80 000 × 70%)					56 000	

Allocation & optimum production plan:

Gamma	10 000 × 2 = 20 000	**(1)**	[9 marks for 10 000, 10 000 and 2000]
Alpha	10 000 × 3 = 30 000	**(1)**	
Beta	2 000 × 3 = 6 000	**(1)**	

Profit:

Gamma	10 000 × 14 = 140 000	**(1)of**
Alpha	10 000 × 13 = 130 000	**(1)of**
Beta	2 000 × 6 = 12 000	**(1)of**
	282 000	
Fixed costs	(80 000)	**(1)**
Profit	202 000	**(1)**

[14]

(110 000 + 100 000 + 8 000 – 16 000 under absorbed = 202 000)

(d) Allocation & optimum production plan:

Gamma	10 000 × 2 = 20 000	**(1)**
Alpha	7 000 × 3 = 21 000	**(1)**
Beta	5 000 × 3 = 15 000	**(1)**

Production plan:

Gamma	10 000 × 14 = 140 000	**(1)of**
Alpha	7 000 × 13 = 91 000	**(1)of**
Beta	5 000 × 6 = 30 000	**(1)of**
	261 000	
Fixed costs	(80 000)	**(1)**
Profit	181 000	**(1)of**

Loss in profit = 202 000 – 181 000 = 21 000 **(1)of** + **(1)cf**

(110 000 + 70 000 + 20 000 – 19 000 under absorbed = 181 000) [10]

[Total: 40]