

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Advanced Level**

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## **MARK SCHEME for the October/November 2012 series**

### **9706 ACCOUNTING**

**9706/43**

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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1 (a) **Manufacturing account for the year ended 31 December 2011**

	\$		\$	
Raw materials at 1 January 2011			31 000	
Purchases	261 000			
Carriage	<u>2 500</u>		<u>263 500</u>	
			294 500	
Raw materials at 31 December 2011			<u>46 400</u>	
Cost of raw materials consumed			248 100	2
Manufacturing wages	166 000	}1		
Direct expenses	<u>9 200</u>			
			<u>175 200</u>	
Prime cost			423 300	1 of
Supervisory wages	42 800	1		
Factory rent	36 000	1		
Depreciation of machinery	<u>13 800</u>	1		
			<u>92 600</u>	
Production cost			515 900	1 of
Factory profit			<u>206 360</u>	1 of
Transfer cost			<u>722 260</u>	1 of

[10]

(b) **Provision for unrealised profit**

Balance c/d	24 800	4	Balance b/d	16 800	2
	<u>24 800</u>		Income statement	<u>8 000</u>	1 of
				<u>24 800</u>	
			Balance b/d	24 800	1 of

Working

$$\frac{722\,260 \text{ 1 of} \times 1240 \text{ 1} \div 10\,318 \text{ 1} \times \frac{40 \text{ 1}}{140}}{\underline{\hspace{1.5cm}}} = 24\,800$$

OR

$$515\,900 \text{ 1 of} \times 1240 \text{ 1} \div 10\,318 \text{ 1} \times \frac{40 \text{ 1}}{100} = 24\,800$$

[8]

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(c) **Income statement for the year ended 31 December 2011**

	\$		\$
Sales			880 000
Finished goods at 1 January 2011	58 800	1	
Transfer of finished goods	<u>722 260</u>	1 of	
	781 060		
Finished goods at 31 December 2011	<u>86 800</u>	3 of	
			<u>694 260</u>
Gross profit			185 740
Factory profit			206 360
Office rent	21 000	1	
Depreciation of office equipment	2 900	1	
Administrative and selling costs	201 000	1	
Increase in provision for unrealised profit	<u>8 000</u>	2 of	
			<u>232 900</u>
Profit for the year			<u>159 200</u>

Working

$$722\,260 \text{ 1 of} \times 1240 \text{ 1} \div 10\,318 \text{ 1} = 86\,800$$

[13]

(d) **Statement of Financial Position at 31 December 2011**

		\$		\$
<b>Non-current assets</b>				570 000
<b>Current assets</b>				
Inventory				
Raw materials		46 400	1	
Finished goods	86 800	1 of		
Provision for unrealised profit	<u>24 800</u>	1 of		
		<u>62 000</u>		
		108 400		
Trade receivables		96 200		
Bank		<u>11 000</u>		
		215 600		
<b>Current liabilities</b>			1 all 3	
Trade payables		<u>(84 100)</u>		<u>131 500</u>
				<u>701 500</u>
Capital				
Bal at 1 January 2011				622 300
Profit for the year				159 200
Drawings				<u>(80 000)</u>
				<u>701 500</u>

[7]

- (e) Factory profit needs to be removed from items of inventory 1 because it has not yet been earned/realised 1. This is an application of prudence 1.

[Max 2]

[Total: 40]

2 (a) Statement of cash flows for Hyung Ltd for the year ended 31 March 2012

	\$000		\$000	
Net loss for the year (15-30)			(15)	1
Depreciation			236	1
Loss on sale of non current assets (240-108 = 132 1 – 130 1)			2	1 of
Increase in inventories			(26)	2
Increase in trade receivables			(18)	2
Decrease in trade payables			<u>(56)</u>	2
Net cash flow from operating activities			123	1 of
Investing activities				
Payments to acquire fixed assets	(808)	1		
Receipts from the sale of fixed assets	<u>130</u>	1		
			(678)	1
Issue of share capital (400 1+20 1)	420	1 of		
Repayment of debentures	<u>(80)</u>	2 of		
			<u>340</u>	1
Net decrease in cash and cash equivalents			(215)	1 of
Balance at 1 April 2011			<u>174</u>	
Balance at 31 March 2012			<u>(41)</u>	1

[24]

(b) Cash is the actual physical amount of money held by a business, whereas profit is a calculated amount and does not represent actual money [2]

(c) Current ratio 198:93 2.13:1 1

Acid test 90:93 0.97:1 1

$$\text{Return on capital employed} = \frac{(15)}{1805} \times 100 = (0.83)\% \quad 1$$

$$\text{Return on equity} = \frac{(15)}{1685} \times 100 = (0.89)\% \quad 1$$

**Max 4 marks for ratios**

Hyung Ltd has a good liquidity position if inventories are included, however if inventories are excluded then the business does not have enough current assets to cover its current liabilities. Perhaps there has been too much spent on inventories and non-current assets. 2

The business made a loss and therefore has a small negative return both on capital employed and equity. 2 [8]

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(d) Loan – annual interest has to be paid out of profits before appropriations to the shareholders. It may be secured on non current assets which cannot be sold for the length of the loan. **3**

Rights issue - usually the market price of the shares drops after a rights issue and not all shareholders will chose to take up the rights so not all the desired money will be raised. **3** [6]

[Total: 40]

<b>3 (a)</b>		\$	
	Raw material	30 000	1
	Direct labour	37 500	1
	Direct costs	5 000	1
	Supervisor	1 500	1
	Rent	2 000	1
	Maintenance	750	1
	Fixed manufacturing costs	<u>1 000</u>	1
		77 750	1 of
		÷ 1 250	1
		= \$62.20	1 of

OR alternative

		\$ per unit	
	Raw material	24.00	2
	Direct labour	30.00	2
	Direct costs	4.00	1
	Supervisor	1.20	1
	Rent	1.60	1
	Maintenance	0.60	1
	Fixed manufacturing costs	<u>0.80</u>	1
		62.20	1 of

[10]

<b>(b)</b>		\$ per unit	
	Brought forward	62.20	1 of
	Commission	2.50}	
	Distribution	1.00}	1
	Administration	<u>8.20</u>	1
		73.90	1 of
	Mark-up (30%)	<u>22.17</u>	1 of
	Selling price	<u>96.07</u>	1 of

[6]

<b>(c)</b>		\$		\$
	Sales 1100 1 × 96.07	1 of		105 677
	Manufacturing costs	77 750	1 of	
	Closing inventory 150 1 × 62.20	<u>(9 330)</u>	1 of	
				<u>68 420</u>
	Gross profit			37 257
	Shipping, commission and admin			
	1 100 1 × {1.00 + 2.50 + 8.2}			<u>12 870</u>
	Profit from operations			<u>24 387</u>

[7]

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(d)  $\$22.17 \text{ 1 of} \times 1100 \text{ 1} = 24\,387 \text{ 1 of}$

(e)

	\$		
Revenue (2000 × 136.5)	273 000		
Variable costs (2000 × 70)	140 000		
Fixed costs	<u>70 000</u>		
Expected profit	63 000	2	[2]

(f) (i)  $\frac{63}{273} = 23.08\% \text{ 2 of}$

(ii)  $B/E = \frac{7\,000\,001}{66.51} = 1053 \text{ units 1 of}$

$\frac{(2\,000 - 1053) \text{ 1 of}}{2\,000 \text{ 1 of}} = 47.35\% \text{ 1 of}$

(iii)  $\frac{63}{140} = 45\% \text{ 2 of}$

(iv)  $\frac{63}{70} = 90\% \text{ 2 of}$

[12]

[Total: 40]