CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/42 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) (i)

Makewell plc
Manufacturing account for the year ended 31 December 2014

	$000	$000	
Raw materials at 1 January 2014		30	
Purchases of raw materials (410 + 3)		413	**(1)**
Raw materials at 31 December 2014		(20)	
		423	
Direct Labour		310	**(1)**
Prime Cost **(1)**		733	**(1 of)**
Factory Overheads	230		
Add: Factory building dep	6 **(1)**		
Factory eqpt dep (25 + 6)	31 **(1)**	267	
		1000	
WiP at 1 January 2014		65	**(1)both**
WiP at 31 December 2014		(85)	
		980	
Factory Profit (980 × 25%)		245	**(1of)**
Transfer to income statement/cost of production		1225	

[8]

(ii)

Income statement for the year ended 31 December 2014

		$000	$000	
Revenue			1500	
Finished Goods at 1 January 2014		150		
Cost of production		1225		**(1of)**
Finished goods at 31 December 2014		180 **(1) both**		
			(1195)	
Gross profit			305	
Factory profit			245	**(1of)**
Distribution costs (110 – 3)		107 **(1)**		
Administrative expenses	240			
+ office building dep	2 **(1)**			
+ office eqpt dep	5 **(1)**	247 **(1)of**		
Increase in PUP **(W1)**		6 **(2)**	(360)	
Profit for the year			190	

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W1 Increase in finished goods 180 000 – 150 000 = 30 000

Increase in PUP = 30 000**(1)** $\times \frac{25}{125} = 6000$ **(1)**

(b)

Statement of financial position at 31 December 2014

	$000	$000	
Assets			
Non-current assets			
Intangible **(1)** – goodwill		35	
Tangible – property, plant and equipment **(W1)**		816	**(6)**
		851	
Current Assets			
Inventory (20 **(1)** + 85 **(1)** + 180 **(1)** -36 **(1)**		249	
Trade receivables	126	**} (1)both**	
Cash and cash equivalents	88	**}**	
		463	
Total assets		1314	
Equity and liabilities			
Capital and reserves			
Share capital (500**(1)** + 200**(1)** + 100**(1)**)		800	**(1)of**
Share premium		20	**(1)**
Retained earnings (380 **(1)** – 200 **(1)** + 190 **(1)OF**)		370	**(1)of**
		1190	
Current liabilities			
Trade payables	98	**(1) both**	
Other payables	26		
		124	
		1314	

W1 PPE 600 **(1)** – (24 + 6 + 2) **(1)** + 310 **(1)** + (80 – 20) **(1)** – (86 + 31 + 5) **(1)** = 816 **(1of)**

Correct terminology used for inventories, trade receivables and trade payables (1)

[23]

[Total: 40]

2 **(a)** Jamal – Cash budget for the 3 months ending January 2016

	NOV	DEC	JAN	
	$000	$000	$000	
Receipts				
Cash Sales	42	45	52	**(3)**
Credit customers				
1 month	90	100	108	**(3)**
2 months	43	60	67	**(3)**
Sale of equipment		5	5	**(2 both)**
	175	210	232	
Payments				
Credit suppliers				
1 month	104	113	129	**(3 all three)**
2 months	31	35	37	**(3 all three)**
Administration expenses	19	21	23	**(1)**
Wages	18	18	18	**(1)**
Delivery Van	20			**(1)**
Equipment payments	9			**(1)**
Equipment instalments		2	2	**(2)**
Drawings	2	2	3	**(1)**
Repayments of loan			25	**(1)**
	203	191	237	
Net Cash	(28)	19	9	
Balance b/f	18	(10)	(5)	**(3)**
Balance c/f	(10)	9	4	**(1)of**

answers rounded (1)

[30]

(b) Calculation of revised profit for the year ended 31 August 2015

	$000	
Original per Jamal	40	
Less:		
Impairment van 2 (18 – 16)	(2)	**(1)**
Impairment van 3 (24 – 20)	(4)	**(1)**
Correction of inventory		
Opening (6 – 4)	(2)	**(1)**
Closing (4 – 6)	(2)	**(1)**
Revised profit for the year	30	**(1of)**

[5]

(c) Calculation of revised return on capital employed

	$	
Original closing capital		
Less: adjustments	100 000	**(1)**
	10 000	**(1of)**
	90 000	**(1of)**

Revised ROCE = 30 000 **(1)** / 90 000 × 33.3% **(1of)** **[5]**

[Total: 40]

3 (a) System uses pre-determined **(1)** standard costs for each element such as materials, labour and overheads. **(1)** The actual costs are compared to the standards **(1)** to highlight the differences which are termed variances. **(1)** [Max 4] **[4]**

(b)

Income statement for October

	$	$	
Sales		41 565	**(1)**
Deduct:			
Materials	12 000		
Labour	18 100		
Overheads	7 535 **(1)**	37 635	
Profit		3 930	**(1of)**

[3]

(c)

			$	
(i)	Sales price variance	41 565 – 42 380 =	815 (A)	**(2)**
(ii)	Sales volume variance	42 380 – 41 600 =	780 (F)	**(2)**
(iii)	Total sales variance	815 (A) + 780 (F) =	35 (A)	**(2of)**
(iv)	Material price variance	12 000 – 11 060 =	940 (A)	**(2)**
(v)	Material usage variance	11 060 – 11 410 =	350 (F)	**(2)**
(vi)	Total material variance	940 (A) + 350 (F) =	590 (A)	**(2of)**
(vii)	Labour rate variance	18 100 – 17 400 =	700 (A)	**(2)**
(viii)	Labour efficiency	17 400 – 17 115 =	285 (A)	**(2)**
(ix)	Total labour variance	700(A) + 285(A) =	985 (A)	**(2of)**

[18]

(d)

	$	
Standard Sales (815 × $52)	42 380	**(1)**
Deduct standard cost of sales	(35 860)	**(1)**
Budgeted total gross profit	6 520	**(1) OF**

[3]

(e)

		$		$	
Budgeted gross profit				6 520	**(1of)**
Sales variances –	Price	815 (A)	**(1of)**		
Material variances –	Price	940 (A)	**(1of)**		
	Usage	350 (F)	**(1of)**		
Labour variances –	Rate	700 (A)	**(1of)**		
	Eff.	285 (A)	**(1of)**		
Overhead variance		200 (A)	**(1)**	2 590	
Actual profit				3 930	**(1of)**

[8]

(f) When setting standards system is fully reviewed so aids efficiency. **(1)**
Variances reviewed to allow remedial action to be taken. **(1)**
Aids setting of selling price. **(1)**
Helps the budget setting process. **(1)**
Enables the use of responsibility accounting. **(1)**
Workforce aware of being monitored so could encourage them. **(1)**
Aids decision making
Helps with controlling resources [Max 4] **[4]**

[Total: 40]