CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 series

9706 ACCOUNTING

9706/41 Paper 4(Problem Solving – Supplement), maximum raw mark 120

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1 (a) (i) 5.04 times [2]

(ii) 35.35 days [2]

(iii) 28.16 days [2]

(b) The company gives more credit to customers than it takes. **(1)of**. It is more desirable to take more credit from suppliers. **(1)** This could have cash flow implications. **(1)** [Max 2]

(c) (i) 50 000 **(1)** – 10 000 **(1)** – 8000 **(1)** = 32 000 [3]

(ii) 26 000 **(1)** – 200 **(1)** = 25 800 [2]

(iii)

Year	Discount factor	Cash Flow		Discounted cash flow	
		$		$	
1	0.909	9 681	**(1)**	8 800	**(1)of**
2	0.826	9 080	**(1)**	7 500	**(1)of**
3	0.751	8 122	**(1)**	6 100	**(1)of**
4	0.683	6 589	**(1)**	4 500	**(1)of**
				26 900	**(1)of**

[9]

(d) (i) $26 900 **(2)of** [2]

(ii) $26 900 **(2)of** [2]

(e) (i) 32 000 **(1) of** – 26 900 **(1) of** = 5100 [2]

(ii) 420 800 **(1)** – 5100 **(1) of** = 415 700 [2]

(iii) 10% **(2)** [2]

(f) (i) Technological change **(2)**
Economic downturn **(2)**
Damage to asset **(2)**
Fall in market value **(2)**
Change in demand **(2)** [Max 4]

(ii) IAS36 [2]

(g) Legal costs
Architect's fees
Any reasonable answer accepted [2]

[Total: 40]

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2 (a) (i) (319 – 272) **(1)** + 140 **(1)** = 187 [2]

(ii) 187 **(1)of** + (46 + 16) **(1)** + 15.5 **(1)** = 264.5 [3]

(b)

Statement of recognised income and expenses for the year ended 31 March

	2012 $000		2011 $000	
Gain on revaluation of property	350	**(2)**	–	**(1)**
Profit for the year	187	**(2)of**	99	**(1)**

[6]

(c) Only purchased goodwill is shown in the financial statements. **(2)**

Goodwill has increased so expansion must have involved the purchase of another business. **(2)**

[4]

(d)

	2012	2011
Income gearing	$\frac{31.51\ \textbf{(1)}}{264.5\ \textbf{(1)of}} \times 100 = 11.91\%$ **(1) of**	$\frac{20\ \textbf{(1)}}{155\ \textbf{(1)}} \times 100 = 12.9\%$ **(1) of**
Gearing	$\frac{610\ \textbf{(1)}}{2879\ \textbf{(1)}} \times 100 = 21.19\%$ **(1) of**	$\frac{300\ \textbf{(1)}}{1572\ \textbf{(1)}} \times 100 = 19.08\%$ **(1) of**

(e) (i) EPS = $\frac{(187 - 18)\ \textbf{(1) of}}{1600\ \textbf{(1)} + (800 \times 9 \div 12)\ \textbf{(1)}} = \$\,0.0768$ **(1) of**

[4]

(ii) DPS = $\frac{122\ \textbf{(1)}}{2400\ \textbf{(1)}} = \$0.0508$ **(1) of** [3]

(f) (i) Gearing has increased slightly **(1)**, but is still very low **(1)**.
Income gearing has decreased slightly **(1)**, as profit has increased more than interest. **(1)**
The company now has more liquid funds available to pay debenture interest. **(1)**

[Max 3]

[Total: 40]

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3 (a) $\frac{10\,000\ \textbf{(1)} + 2000\ \textbf{(1)}}{0.8\ \textbf{(1)}}$ = 15 000 units

[3]

(b) (i)

Process 1

Raw materials			Bank (scrap)		
15 000 × 10	150 000	**(1)of**	3000 × 5	15 000	**(1)of**
Direct labour					
15 000 × 18	270 000	**(1)of**	Process 2	607 500	**(1)of**
Variable overhead					
15 000 × 6	90 000	**(1)of**			
Fixed overhead					
15 000 × 7.5	112 500	**(1)of**			
	622 500			622 500	

[6]

(ii)

Process 2

Process 1			607 500	**(1)of**	Trading account			
Raw materials					Process 1	506 250	**(1)of**	
10 000 × 8	80 000	**(1)**			RM	80 000	**(1)of**	
2 000 × 8 × .75	12 000	**(1)**	92 000		DL	240 000	**(1)of**	
Direct labour					VO	60 000	**(1)of**	
10 000 × 24	240 000	**(1)**			FO	75 000	**(1)of**	
2 000 × 24 × .5	24 000	**(1)**	264 000					961 250
Variable overhead					Work-in-progress			
10 000 × 6	60 000	**(1)**			Process 1	101 250		
2 000 × 6 × .5	6 000	**(1)**	66 000		RM	12 000		
Fixed overhead					DL	24 000		
10 000 × 7.5			75 000	**(1)**	VO	6 000		143 250 **(2)of**
			1 104 500					1 104 500

[15]

(c) $\frac{961\,250\ \textbf{(1) of}}{10\,000\ \textbf{(1)}} = \$96.125$

[2]

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(d)

		$	
Cost from process 2		96.125	**(1)of**
Selling and administration cost		8.00	**(1)**
–FC from process 1	$\frac{112500\ \textbf{(1)of}}{12000\ \textbf{(1)}}$	(9.375)	
–FC from process 2		(7.50)	**(1)**
Variable cost		87.25	**(1)of**
Selling price		92.00	**(1)**
Contribution per unit		4.75	**(1)of**

[8]

The directors should accept the order.	**(1)**
It yields a positive contribution.	**(1)of**
There may be further orders from Limbu.	**(2)**
The company could lost the goodwill of existing customers.	**(2)**
Could Limbu sell on his purchases and undercut the company.	**(2)**

[Max 6]

[Total: 40]

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