CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Level

MARK SCHEME for the October/November 2012 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.

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1 (a) Abercrombie plc Income statement for the year ended 30 April 2012

				$	
Revenue				1 125 000	**1 of**
Deduct: Cost of sales					
Opening inventories		65 000	**2 of**		
Ordinary goods purchased		747 500	**3 of**		
		812 500			
Closing inventories		(81 250)		731 250	**3 of**
Gross profit				393 750	**1 of**
Distribution costs				(75 000)	**1 of**
Administrative expenses				(150 000)	**1 of**
Profit from operations	**1**			168 750	**1 of**
Interest				(21 094)	**1 of**
Taxation				(10 547)	**1 of**
Retained earnings for the year	**1**			137 109	**1 of**

$$\text{Opening inventories} = 81250 \text{ x } \frac{100\,\mathbf{1}}{125} = \$65\,000\,\mathbf{1\,of}$$

$$\text{Cost of sales} = \frac{65000 + 81250\,\mathbf{1\,of}}{2} x 10\,\mathbf{1} = \$731250\,\mathbf{1\,of}$$

Ordinary goods purchased:

731 250 **1 of** + (81 250 – 65 000) **1 of** = $ 747 500 **1 of** [18]

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(b) Abercrombie plc Statement of financial position at 30 April 2012

	$		$	
Non-current assets			562 500	**3**
Current assets				
Inventories	81 250	**1**		
Trade receivables	104 795	**3**		
Cash & cash equivalents	43 530	**3 of**	229 575	
Total assets			792 075	**1 of**
Current liabilities				
Trade payables			(120 829)	**3**
Non-current liabilities				
10% Debentures 2020			(210 940)	**1 of**
Net assets			460 306	
Equity				
200 000 ordinary shares of $1			200 000	**1**
Retained earnings			160 865	**3**
Revaluation reserve			99 441	**1**
			460 306	

Non-current assets $\frac{1125000\ \textbf{1 of}}{2\ \ \textbf{1}}$ = $562 500 **1 of**

Trade receivables $\left(\frac{1125000\ \textbf{1 of}}{365}\right)$ × 34 **1** = $104 795 **1 of**

Cash & cash equivalent 229 575 **1 of** - 186 045 **1 of** = $43 530 **1 of**

Trade payables $\left(\frac{747500\ \textbf{1 of}}{365}\right)$ × 59 **1** = $120 829 **1 of**

Retained earnings 23 756 **1** + 137 109 **1 of** = $160 865 **1 of** [20]

(c) The final proposed dividend is not a liability at the statement of financial position date and is not accounted for until the next period. **1**. It is disclosed as a note in the financial statements. **1** [2]

[Total: 40]

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2 **(a)** 12 800 units **1** at $60 each **1** [2]

(b)

		$		
	Original balance	(26 600)	**1**	
1	Machinery	(28 000)	**1**	
2	Bank charges	(100)	**1**	
3	Raw materials	(1 000)	**1**	
4	Provision for doubtful debts	(2 140)	**1**	
5	Provision for legal costs	(12 160)	**1**	
		(70 000)	**1 of**	[7]

(c) 140 000 shares at $0.50 each **2** [2]

(d) **Statement of financial position at 31 December 2011**

	$		$		$		
Non-current assets							
Machinery					2 000		
Other non-current assets					20 000		
					22 000	**1**	
Current assets							
Inventory of raw materials			52 200	**1**			
Trade receivables			40 660	**1**			
Cash and cash equivalents			900	**1**			
			93 760				
Current liabilities							
Trade payables	33 600	**1**					
Provision for legal costs	12 160	**1**	45 760				
					48 000		
					70 000		
Ordinary shares of $0.50 each	**1**				70 000	**1 of**	[8]

(e) No. **1**

The nominal value of the shares has been changed and not the market value.**2**

It will now be possible for a dividend to be paid. **2**

The market value of the share may actually rise **2** [max 5]

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(f) Forecast income statement for the year ending 31 December 2012

	$		
Revenue	1 152 000	**1**	
Cost of production			
9 600 **1** × 1.08 **1** × 60 **1**	622 080	**1 of**	
	529 920	**1 of**	
Selling and administration expenses	196 650	**2**	
Profit from operations **1**	333 270	**1 of**	
Finance charges	27 000	**1**	
Profit for the year **1**	306 270	**1 of**	[13]

(g)	20% of profit	$61 254	**1 of**	
	Shares in issue	÷140 000	**1 of**	
	Dividend per share	=$0.438	**1 of**	[3]

[Total: 40]

3 (a) (i) sales volume variance $12 600 A

(ii) sales price variance $4 280 A

(iii) total sales variance $16 880 A

(iv) materials usage variance $1 160 A

(v) materials price variance $1 420 A

(vi) total materials variance $2 580 A

(vii) labour efficiency variance $720 A

(viii) labour rate variance $4 720 F

(ix) total labour variance $4 000 F

9 × 2 marks [18]

(b) (i) Material price variance is likely to be adverse due to higher price.

Material usage variance is likely to be favourable as better quality means less wastage/spoilage.

Labour efficiency variance may be favourable as labour can work faster with better quality materials

Other valid point

2 marks per point to max 6

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(ii) Labour rate variance is likely to be favourable as less skilled workers are cheaper

Labour efficiency variance is likely to be adverse as less skilled workers may work more slowly

Material usage variance may be adverse as less skilled workers may make more mistakes using the materials

2 marks per point to max 6 [12]

(c) **(i)** Marginal costing

(ii) Job costing

(iii) Process costing

(iv) Absorption costing

(v) Batch or unit costing

5 × 2 marks [10]

[Total: 40]

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