CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Level

MARK SCHEME for the October/November 2014 series

9706 ACCOUNTING

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

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1 (a)

Realisation Account

	$			$	
Land and buildings	210 000	}	Trade payables	1 142	**(1)**
Plant and machinery	27 950	**(1)**	A – Motor vehicle	4 000	} **(1)**
Motor vehicles	11 352	}	B – Motor vehicle	4 000	}
Inventories	17 632		Bank: Land and builds	217 000	**(1)**
Trade receivables	1 206	**(3)**	Plant and machinery	25 000	**(1)**
Dissolution costs	2 250	**(1)**	Motor vehicles	5 000	
Cap. a/c A 1 692 **(1) OF**			Inventories	18 478	**(1)**
B 1 692 **(1) OF**					
C 846 **(1) OF**	4 230				
	274 620			274 620	

Trade receivables:
9340 – 1040 **(1)** – 166 **(1)** = 8134; 9340 – 8134 = 1206. **(1)**
Trade payables:
22 840 × 5% = 1142 **(1)**; 22 840 – 21 698 = 1142 **[13]**

(b)

Partners' Capital Accounts

	A $	B $	C $		A $	B $	C $
				Bal. b/d	80 000	60 000	20 000 **(1)**
Current a/c			2 628	Current a/c	12 735	10 873 **(1)**	
				Realisation	1 692 **(1)OF**	1 692 **(1)OF**	846 **(1)OF**
Real. – M. V	4 000 **(1)**	4 000 **(1)**					
Bank	90 427	68 565	18 218 **3(OF)**				
	94 427	72 565	20 846		94 427	72 565	20 846

[10]

(c)

Bank Account

	$		$
Bal. b/d	2 546 **(1)**	Trade payables	21 698 **(1)OF**
Trade receivables	8 134 **(1)OF**	Dissolution costs	2 250 **(1)**
Realisation a/c	265 478 **(1)OF**	Loan – Aston	75 000 **(1)**
		Cap. a/c	A 90 427 **(1)OF**
			B 68 565 **(1)OF**
			C 18 218 **(1)OF**
			177 210
	276 158		276 158

Realisation a/c
217 000 + 25 000 + 5000 + 18 478 = 265 478 **[9]**

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(d) RR – Retained earnings, general reserve. **(1)**
CR – Share premium, capital redemption reserve, revaluation reserve. **(1)** **[2]**

(e) **(i)** A provision is a liability **(1)** of uncertain timing and amount. **(1)**

(ii) A contingent liability is a possible liability from a past event **(1)** whose existence will be confirmed by the occurrence or non-occurrence of an uncertain event. **(1)**

(iii) A contingent asset is a possible asset from a past event **(1)** whose existence will be confirmed by the occurrence or non-occurrence of an uncertain event. **(1)** **[6]**

[Total: 40]

2 **(a)**

Wotknot Limited
Income Statement for the year ended 30 April 2014

Revenue ($600 000 ÷ 60%)		1 000 000	**(2)**
Opening inventory (50% × $80 000)	40 000 **(1)**		
Purchases (balancing figure)	640 000 **(1)**		
	680 000		
Closing inventory	(80 000)		
Cost of sales		600 000	**(1)**
Gross profit		400 000	**(1)OF**
Administrative expenses		(140 000)	**(1)**
Distribution expenses (balancing figure)		(70 000)	
Profit from operations		190 000	**(1)OF**
Finance costs ($50 000 × 10%)		(5 000)	**(1)**
Profit for the year		185 000	**(1)OF**

[10]

(b) Statement of changes in equity for the year ended 30 April 2014

Profit for the year	185 000	**(1)OF**
Transfer to general reserve	(20 000)	**(1)**
Dividends paid (200 000 × $0.08)	(16 000)	**(1)**
Retained earnings b/fwd	(40 000)	**(1)**
Retained earnings c/fwd	109 000	**(1)OF**

[5]

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(c)

Wotknot Limited
Statement of Financial Position at 30 April 2014

Assets		
Non-current assets ($1 000 000 × 0.2)	200 000	**(2)**
Current assets		
Inventory	80 000	**(1)**
Trade receivables ($1 000 000 × 40 ÷ 365)	109 589	**(2)OF**
	189 589	
Total assets	389 589	
Equity and liabilities	100 000	
Ordinary shares	60 000	**(1)**
General reserve ($40 000 + $20 000)	109 000	**(1)OF**
Retained earnings	269 000	
Total equity		
Non-current liabilities		
10% Debenture	50 000	**(1)**
Current liabilities		
Trade payables ($640 000 × 35 ÷ 365)	61 370	**(2)OF**
Bank overdraft	9 219	**(2)CF (1)OF**
	70 589	
Total liabilities	389 589	

[12]

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(d)

Ratio	Wotknot Limited	Siri Limited
Inventory turnover	10 times	15 times
Gross profit margin	40%	45%
Operating profit margin	19% **(1)OF**	15%
Current ratio	2.69:1 **(1)OF**	2:1
Trade receivables turnover	40 days	35 days
Trade payables turnover	35 days	28 days
Dividend yield	5% **(1)**	12%
Gearing*	19% **(1)**	60%

***** Alternative methods acceptable.

Comments:

1 Siri Limited has a better inventory turnover **(1)** and gross profit margin **(1)**. This indicates they are more efficient in selling their inventory **(1)**.

2 However Wotknot Limited has a better operating profit margin **(1)** which indicates they are more efficient in managing their expenses **(1)**.

3 The current ratio of Wotknot Limited is better than Siri Limited **(1)**. However the bank overdraft of Wotknot Limited may indicate poor inventory control **(1)**.

4 Both businesses are efficient in collecting their debts although Siri Limited has a shorter period **(1)** which is better **(1)**.

5 Both businesses pay their suppliers before collecting their cash from customers which is **not** good **(1)**. Siri Limited retain their cash in the business for longer which is better **(1)**, which may be a cause of Wotknot Limited's bank overdraft **(1).**

6 Siri Limited has a better dividend yield **(1)**, but a worse gearing ratio **(1)**. This will be a problem if interest rates increase **(1)**, as their profit available to pay dividend will reduce, reducing the dividend paid **(1)**.

[Max 13]

[Total: 40]

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3 (a)

Process 1

	$		$
Direct materials	252 000 **(1)**	Scrap	9 000 **(2)OF**
Direct labour	210 000 **(1)**	Process 2	600 000 **(1)**
Variable overhead	63 000 **(1)**		
Fixed overhead	84 000 **(1)**		
	609 000		609 000

[7]

(b) (i) 9000 **(1)OF** ÷ 18 **(1)** = 500 **(1)OF** **[3]**

(ii) $\frac{500 \text{ (1)OF}}{10\,500 \text{ (1)OF}} \times 100 = 4.76\%$ **(1)OF** **[3]**

(c) Work-in-progress

	$
Process 1	120 000 **(1)**
Direct materials	8 000 **(1)**
Direct labour	26 400 **(1)**
Variable overheads	7 200 **(1)**
	161 600 **(1)OF**

[5]

(d)

Process 2

	$		$
Process 1	600 000 **(1)**		
Direct materials		Work-in-progress	161 600 **(1)OF**
40 000 **(1)** + 8 000 **(1)OF**	48 000		
Direct labour		Finished goods	904 000 **(1)OF**
264 000 **(1)** + 26 400 **(1)OF**	290 400		
Variable overhead			
72 000 **(1)** + 7 200 **(1)OF**	79 200		
Fixed overhead	48 000 **(1)**		
	1 065 600		1 065 600

[10]

(e)

	$	$
Total net costs to date		1 065 600 **(1of)**
Costs to complete		
Direct materials	2 000 **(1of)**	
Direct labour	39 600 **(1of)**	
Variable overhead	10 800 **(1of)**	
Fixed overhead	12 000 **(1of)**	
Total costs to complete		64 400 **(1of)**
Final total costs		1 130 000 **(1of)**

[7]

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(f) The usual sales price would be $1 412 500. **(1)OF**
This sales price is $232 500 less than that. **(1)OF**
There is still a positive contribution **(1of)** of $194 000. **(1)OF**
There is still a positive profit **(1of)** of $50 000. **(1)OF**
The expected mark-up was 4.4%. **(1)OF**
There may be an effect on other customers. **(1)**
Will other customers demand lower prices? **(1)**
Could these Albas be resold on the open market? **(1)** **[Max 5]**

[Total: 40]

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