

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/42

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

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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		<u>(20)</u>
		423
Direct Labour		<u>310 (1)</u>
Prime Cost (1)		733 (1 of)
Factory Overheads	230	
Add: Factory building dep	6 (1)	
Factory eqpt dep (25 + 6)	<u>31 (1)</u>	<u>267</u>
		1000
WiP at 1 January 2014		65 (1)both
WiP at 31 December 2014		<u>(85)</u>
		980
Factory Profit (980 × 25%)		<u>245 (1of)</u>
Transfer to income statement/cost of production		<u>1225</u>

[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	<u>180 (1) both</u>	<u>(1195)</u>
Gross profit		305
Factory profit		245 (1of)
Distribution costs (110 – 3)	107 (1)	
Administrative expenses	240	
+ office building dep	2 (1)	
+ office eqpt dep	<u>5 (1)</u>	<u>247 (1)of</u>
Increase in PUP (W1)	<u>6 (2)</u>	<u>(360)</u>
Profit for the year		<u>190</u>

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

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

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(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)		<u>816 (6)</u>
		851
Current Assets		
Inventory (20 (1) + 85 (1) + 180 (1) -36 (1))		249
Trade receivables	126 } (1)both	
Cash and cash equivalents	<u>88 }</u>	
		<u>463</u>
Total assets		<u>1314</u>
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)		<u>370 (1)of</u>
		1190
Current liabilities		
Trade payables	98 (1) both	
Other payables	<u>26</u>	
		<u>124</u>
		<u>1314</u>

W1 PPE $600 (1) - (24 + 6 + 2) (1) + 310 (1) + (80 - 20) (1) - (86 + 31 + 5) (1) = 816 (1\text{of})$

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

[23]

[Total: 40]

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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)
	<u>175</u>	<u>210</u>	<u>232</u>	
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)
	<u>203</u>	<u>191</u>	<u>237</u>	
Net Cash	(28)	19	9	
Balance b/f	18	(10)	(5)	(3)
Balance c/f	<u>(10)</u>	<u>9</u>	<u>4</u>	(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	<u>30</u>	(1of)

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(c) Calculation of revised return on capital employed

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

Revised ROCE = $30\,000 (1) / 90\,000 \times 33.3\% (1of)$

[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)

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(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]