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

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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CAMBRIDGE
International Examinations

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)**

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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 × 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]