

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

**GCE Advanced Level**

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## **MARK SCHEME for the October/November 2012 series**

### **9706 ACCOUNTING**

**9706/41**

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.

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

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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     | <b>(1)</b> | 8 800                | <b>(1)of</b> |
| 2    | 0.826           | 9 080     | <b>(1)</b> | 7 500                | <b>(1)of</b> |
| 3    | 0.751           | 8 122     | <b>(1)</b> | 6 100                | <b>(1)of</b> |
| 4    | 0.683           | 6 589     | <b>(1)</b> | <u>4 500</u>         | <b>(1)of</b> |
|      |                 |           |            | <u>26 900</u>        | <b>(1)of</b> |
- [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)  $187 (1) \text{ of } + (46 + 16) (1) + 15.5 (1) = 264.5$  [3]

(b) **Statement of recognised income and expenses  
for the year ended 31 March**

	2012 \$000		2011 \$000	
Gain on revaluation of property	<u>350</u>	(2)	<u>—</u>	(1)
Profit for the year	187	(2) of	<u>99</u>	(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	$\frac{31.51 (1)}{264.5 (1) \text{ of}} \times 100 = 11.91\% (1) \text{ of}$	$\frac{20 (1)}{155 (1)} \times 100 = 12.9\% (1) \text{ of}$
Gearing	$\frac{610 (1)}{2879 (1)} \times 100 = 21.19\% (1) \text{ of}$	$\frac{300 (1)}{1572 (1)} \times 100 = 19.08\% (1) \text{ of}$

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

[4]

(ii)  $DPS = \frac{122 (1)}{2400 (1)} = \$0.0508 (1) \text{ of}$

[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)  $\frac{10\,000\ (1) + 2000\ (1)}{0.8\ (1)} = 15\,000\ \text{units}$  [3]

(b) (i)

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

[6]

(ii)

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

[15]

(c)  $\frac{961250\ (1)\ \text{of}}{10\,000\ (1)} = \$96.125$  [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	<u>112500</u>	<b>(1)of</b>
	<u>12000</u>	<b>(1)</b>
	(9.375)	
–FC from process 2	<u>(7.50)</u>	<b>(1)</b>
Variable cost	87.25	<b>(1)of</b>
Selling price	<u>92.00</u>	<b>(1)</b>
Contribution per unit	<u>4.75</u>	<b>(1)of</b>

[8]

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

[Max 6]

**[Total: 40]**