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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.
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     | (1) 8 800            |
       | 2    | 0.826          | 9 080     | (1) 7 500            |
       | 3    | 0.751          | 8 122     | (1) 6 100            |
       | 4    | 0.683          | 6 589     | (1) 4 500            |
       |      |                | 26 900    | (1)                  |

   (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]
2 (a) (i) \[(319 - 272) \times 140 = 187\] 
(ii) \[187 \times (46 + 16) + 15.5 = 264.5\] 
(b) Statement of recognised income and expenses for the year ended 31 March

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000</td>
<td>$000</td>
<td></td>
</tr>
<tr>
<td>Gain on revaluation</td>
<td>350</td>
<td>(2)</td>
</tr>
<tr>
<td>of property</td>
<td></td>
<td>(1)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>187</td>
<td>(2)</td>
</tr>
<tr>
<td>of 99</td>
<td></td>
<td>(1)</td>
</tr>
</tbody>
</table>

(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)

(d) Income gearing

\[
\text{Income gearing} = \frac{31.51}{264.5} \times 100 = 11.91\% \text{ of } 100 = 1.191\%
\]

\[
\text{Gearing} = \frac{610}{2879} \times 100 = 21.19\% \text{ of } 100 = 21.19\%
\]

(e) (i) \[
\text{EPS} = \frac{(187 - 18)}{1600} = \$ 0.0768 \text{ of } 100
\]

(ii) \[
\text{DPS} = \frac{122}{2400} = \$ 0.0508 \text{ of } 100
\]

(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]
3 (a) \[
\frac{10000 \times 1 + 2000 \times 1}{0.8} = 15000 \text{ units}
\]

(b) (i) Process 1

| Raw materials | 15000 x 10 | 150000 \(\times\) 1 | 15000 \(\times\) 1 |
| Direct labour | 15000 x 18 | 270000 \(\times\) 1 | 15000 \(\times\) 1 |
| Variable overhead | 15000 x 6 | 90000 \(\times\) 1 |  |
| Fixed overhead | 15000 x 7.5 | 112500 \(\times\) 1 |  |

\[
\text{Total} = 622500
\]

(ii) Process 2

| Raw materials | 10000 x 8 | 80000 \(\times\) 1 |  |
| Direct labour | 2000 x 8 x 0.75 | 12000 \(\times\) 1 | 92000 \(\times\) 1 |
| Variable overhead | 10000 x 24 | 240000 \(\times\) 1 | 264000 \(\times\) 1 |
| Fixed overhead | 10000 x 7.5 | 75000 \(\times\) 1 |  |

\[
\text{Total} = 961250
\]

(c) \[
\frac{961250 \times 1}{10000} = 96.125
\]
(d) 

\[
\begin{array}{l}
\text{Cost from process 2} \quad 96.125 \quad \text{(1)} \\
\text{Selling and administration cost} \quad 8.00 \quad \text{(1)} \\
\text{\textendash FC from process 1} \quad 112500 \quad \text{(1)} \\
\quad 12000 \quad \text{(1)} \\
\text{\textendash FC from process 2} \quad (7.50) \quad \text{(1)} \\
\text{Variable cost} \quad 87.25 \quad \text{(1)} \\
\text{Selling price} \quad 92.00 \quad \text{(1)} \\
\text{Contribution per unit} \quad 4.75 \quad \text{(1)}
\end{array}
\]

The directors should accept the order. \(\text{(1)}\)
It yields a positive contribution. \(\text{(1)}\)
There may be further orders from Limbu. \(\text{(2)}\)
The company could lose the goodwill of existing customers. \(\text{(2)}\)
Could Limbu sell on his purchases and undercut the company. \(\text{(2)}\)

[Max 6]

[Total: 40]