

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

Cambridge International Advanced Level

## **MARK SCHEME for the October/November 2015 series**

### **9706 ACCOUNTING**

**9706/41**

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

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Page 2	Mark Scheme	Syllabus	Paper
	Cambridge International A Level – October/November 2015	9706	41

1 (a)

Corbiere plc  
Income statement for the year ended 30 September 2015

	\$	\$	
Revenue (756 690 – 3470)		753 220	(1)
Cost of Sales (W1)		(384 060)	
Gross Profit		369 160	(1) of
Administrative Expenses (W2)	73 732		
Distribution Costs (W3)	<u>106 218</u>	<u>(179 950)</u>	
Profit from Operations		189 210	(1) of
Finance Costs		<u>(4 080)</u>	(1)
Profit before tax		185 130	(1) of
Taxation		<u>(28 200)</u>	(1)
Profit for the year		<u>156 930</u>	(1) of

**Workings**

	\$	\$	
W1 Cost of Sales			
Opening Inventories		62 500	
Purchases	392 340		
Returns outwards	<u>(2 780)</u>	(1)	
		389 560	
Carriage Inwards	<u>3 600</u>	(1)	<u>393 160</u>
			455 660
Closing inventories (73 100 – 5000 + 3500)			<u>(71 600)</u> (1)
			<u>384 060</u>

W2 Admin.exps 63 810 – 6000 (1) + 2584 (1)\* + 5088 (1)\*\* – 4800 (1) + 11 320 (1)\*\*\*  
+ 1730 (1) = 73 732 (1) of

W3 Distribution costs 49 330 + 10 336 (1)\* + 1272 (1)\*\* + 45 280 (1)\*\*\* = 106 218 (1) of [21]

\* Depreciation motor vehicles 64 600 × 20% = 12 920  
Split Admin 2584 Distribution 10 336

\*\* Depreciation Plant and Machinery 42 400 × 15% = 6 360  
Split Admin 5088 Distribution 1272

\*\*\* Wages and salaries 54 900 + 1700 = 56 600  
Split Admin 11 320 Distribution 45 280

**(b)**

Corbiere plc

Statement of financial position at 30 September 2015

Assets		\$	
Non-Current Assets			
Property	220 000	(1)	
Plant and Machinery (W4)	36 040	(2) of	
Motor Vehicles (W5)	<u>32 920</u>	(1) of	
Current Assets			
Inventories	71 6000	(1) of	
Trade and other receivables (W6 and W7)	<u>93 970</u>	(2) of	
	<u>165 570</u>		
Total Assets	<u>454 530</u>		
Equity and liabilities			
Equity			
Ordinary share capital	50 000		
Share Premium	15 000	(1)	
Retained earnings (W8)	<u>226 630</u>	(1) of	
	<u>291 630</u>		
Non-current liabilities			
6% debentures (2020)	<u>68 000</u>	(1)	
Current liabilities			
Trade and other payables (W9 and W10)	53 930	(2) of	
Taxation	28 200	(1)	
Cash & cash equivalents	12 770		
	<u>94 900</u>		
Total equity and liabilities	<u>454 530</u>		

**Workings**

W4	$\$68\,700 + \$6\,000 (1) - \$6\,360 (1) - \$32\,300 = \$36\,040$
W5	$\$84\,600 - \$12\,920 - \$38\,760 = \$32\,920$
W6	$\$86\,500 - \$1\,730 (1) \text{ of} = \$84\,770$
W7	$\$4\,400 + \$4\,800 = \$9\,200 (1) \text{ of}$
W8	$\$69\,700 + \$156\,930 (1) \text{ of} = \$226\,630$
W9 and W10	$\$48\,730 + \$2\,480 + \$1\,700 (1) + \$1\,020 (1) \text{ of} = \$53\,930$

[13]

**(c)** Inventory is valued at lower of cost and net realisable value **(1)** to avoid inventory being overstated **(1)** and to recognize a loss as soon as it arises. **(1)** [Max 2]

The flood occurred after the date of the financial statements **(1)**. The condition did not exist at this date and the event is therefore non-adjusting as per IAS10 **(1)**. The event should be disclosed as a note **(1)**. [Max 2]

Proposed dividends are disclosed as a note **(1)** but are not shown in the financial statements **(1)**. [6]

[Total: 40]

**2 (a)**

		Partners' capital accounts								
		A	B	C			A	B	C	
		\$	\$	\$			\$	\$	\$	
Goodwill	108 000	86 400	21 600	<b>(3)</b>	Bal b/d	76 000	64 000	105 000	<b>(1)</b>	
Bal c/d	40 000	25 600	186 400		Revaluation (W1)			7 000	<b>(3)</b>	
					Goodwill	72 000	48 000	96 000	<b>(3)</b>	
	<u>148 000</u>	<u>112 000</u>	<u>208 000</u>			<u>148 000</u>	<u>112 000</u>	<u>208 000</u>		
					Bal b/d	40 000	25 600	186 400	<b>(1)</b>	

W1 15 000 – 3000 – 5000 = 7000 **[11]**

**(b)** Net current assets = \$20 000 + \$20 000 = \$40 000 **(1)** **[1]**

**(c)**

Arial, Bodoni and Caslon  
Statement of financial position at 1 April 2014

		\$		
Non-current Assets		175 000	<b>(1)</b>	
Land and buildings	(95 000 + 80 000)	<u>37 000</u>	<b>(1)</b>	
Plant and equipment	(25 000 + 12 000)	<u>212 000</u>		
Current assets		W1 20 000	<b>(2)</b>	
Inventory		W2 35 000	<b>(1)</b>	
Trade Receivables		W3 5 000	<b>(2)</b>	
Cash and Cash Equivalents		<u>60 000</u>		
		<u>272 000</u>		
Total assets				
Capital accounts				
Arial		40 000	)	
Bodoni		<u>25 600</u>	)	
Caslon		<u>186 400</u>	) <b>(1) of (1) cf</b>	
		<u>252 000</u>		
Current liabilities				
Trade payables		<u>20 000</u>	<b>(1)</b>	
Total capital and liabilities		<u>272 000</u>		

W1: Current assets – Inventory = 40 000 **(1)** (Liquid ratio used)  
Therefore Inventory = 20 000 **(1)**

W2: Trade receivables + cash = 40 000    Cash = 40 000 – 35 000 = 5000

W3: 3 × 20 000 = \$60 000 – \$55 000 **(1) of** = \$5000 **(1) of** (current ratio used)

**[10]**

<b>Page 5</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – October/November 2015</b>	<b>9706</b>	<b>41</b>

(d)

Partners' capital accounts									
	A	B	C		A	B	C		
	\$	\$	\$		\$	\$	\$		
Drawings	47 000	68 000	110 000	(1)	Bal b/d	40 000	25 600	186 400	(1) of
Bal c/d	83 000	29 600	174 400		Share of profit	90 000	72 000	18 000	(3)
					Salary			80 000	(1)
	<u>130 000</u>	<u>97 600</u>	<u>284 400</u>			<u>130 000</u>	<u>97 600</u>	<u>284 400</u>	
					Bal b/d	83 000	29600	174 400	(1) of

[7]

(e)

Value of business = Net assets + goodwill			
Net Assets:			
		\$	
Net assets at 1 April 2014	252 000	(1)	of
Profit for the year	260 000	(1)	
	512 000		
Drawings	225 000	(1)	
Net assets at 31 March 2015	287 000	(1)	of
Goodwill			
1.25 (1) × 260 000 (1)	325 000	(1)	
Value of business	612 000	(1)	

[8]

- (f) Reputation (1)  
Customer service (1)  
Customer base (1)  
Location (1)

[Max 3]

[3]

[Total: 40]

3 (a) Selling price =  $15 + 32 + 7 = 54$  (1)  $\times 1.175$  (1) = \$63.45 (1) of [3]

(b)

(i)	Sales price variance	328 860 – 319 788	(1)of =	9 072 (F)	(1)of
(ii)	Sales volume variance	319 788 – 317 250	(1)of =	2 538 (F)	(1)of
(iii)	Total sales variance	9072 (F) + 2538 (F)	=	11 610 (F)	(1)of + 1 cf
(iv)	Material price variance	78 795 – 77 250	=	1 545 (A)	(2)
(v)	Material usage variance	77 250 – 76 500	=	750 (A)	(2)
(vi)	Total Material variance	1545 (A) + 750 (A)	=	2 295 (A)	(1)of + (1) cf
(vii)	Labour rate variance	172 125 – 162 000	=	10 125 (A)	(2)
(viii)	Labour efficiency variance	162 000 – 163 200	=	1 200 (F)	(2)
(ix)	Total labour variance	10 125 (A) + 1200 (F)	=	8 925 (A)	(1)of + (1) cf

[18]

Variances – award 1 for figure and 1 for (F) / (A).

(c) The rate is adverse showing a greater cost. (1)of. This may be due to a more highly skilled workforce. (1) of

The efficiency is favourable and thus less time than the standard was spent on each unit.

(1) of This may be due to the more highly skilled workforce. (1)of

The total labour variance is adverse as the adverse rate is greater than the favourable efficiency rate. (1)of [5]

(d)

	\$		\$	
Sales			328 860	(1)
Deduct:				
Materials	78 795			
Labour	172 125			
Overheads	36 000	(1)		
	286 920			
Less Closing inv.	(3 240)	(1)	(283 680)	
Profit			45 180	(1) of

[4]

<b>Page 7</b>	<b>Mark Scheme</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>Cambridge International A Level – October/November 2015</b>	<b>9706</b>	<b>41</b>

(e) Calculation of budgeted profit for 5040 items sold

Sales (5040 × \$63.45)	319 788	(1) of	
Cost of sales (5040 × \$54)	<u>272 160</u>	(1)	
Standard profit	<u>47 628</u>	(1) of	[3]

(f) Statement reconciling actual and budgeted profit for April

	\$		
Standard profit	47 628	*	
Add: sales price variance	9 072	(1) of	
labour efficiency variance	<u>1 200</u>	(1) of	
	57 900		
Less: material price variance	(1 545)	(1) of	
material usage variance	(750)	(1) of	
labour rate variance	(10 125)	(1) of	
overhead variance	<u>(300)</u>	(1) of	
Actual profit	<u>45 180</u>	*(1) of both	[7]

[Total: 40]