

**MARK SCHEME for the May/June 2010 question paper**  
**for the guidance of teachers**

**9706 ACCOUNTING**

**9706/43**

Paper 43 (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.

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<b>Page 2</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – May/June 2010</b>	<b>9706</b>	<b>43</b>

**1 (a)** Capital accounts

	D	N	A		D	N	A
	\$	\$	\$		\$	\$	\$
1.7.09 Goodwill (1)	6 000	6 000	6 000	1.1.09 bals b/d (1)	24 000	18 000	
31.12.09 bals c/d	27 000	21 000	94 000	1.7.09 Premises (1)			100 000
	<b>(1)of</b>	<b>(1)of</b>	<b>(1)of</b>	1.7.09 Goodwill (1)	9 000	9 000	
	<u>33 000</u>	<u>27 000</u>	<u>100 000</u>		<u>33 000</u>	<u>27 000</u>	<u>100 000</u>
				1.1.10 bals b/d	27 000	21 000	94 000

Ofs if no extraneous items and balances carried down correctly.

[7]

**(b)** Income statements (Trading and profit and loss accounts) and appropriation accounts for the 6 months ended

	30 June 2009		31 December 2009	
	\$	\$	\$	\$
Sales (1 mark for 188 000)	(2)	189 000	(1)	247 000
Opening inventory (stock)	22 000		21 000	
Purchases	105 000 (1)		127 000 (1)	
Closing inventory (stock)	<u>-21 000</u>	<u>106 000</u>	<u>-28 000</u>	<u>120 000</u>
Gross profit		83 000		127 000
Loss of disposal (10-2.5-6.5)	1 000 (1)		-	
Other costs	51 000		57 000	
Rent	3 000 (1)		-	
Depreciation – equipment	2 500 (1)		3 100 (1)	
premises	-		350 (1)	
Interest	-		1 200 (1)	
Bad debts	<u>1 000 (1)</u>	<u>58 500</u>	<u>-</u>	<u>61 650</u>
Profit for the period (net profit)		24 500		65 350
Salary – A	-		8 000 (1)	-8 000
Interest – D	600 ) (1)		1 080 (1)of	
Interest – N	450 )		840 (1)of	
Interest – A	-	-1 050	3 760 (1)of	-5 680
Share of profit – D	11 725 ) (1)of		17 223 )	
Share of profit – N	11 725 )		17 223 ) (1)of	
Share of profit – A		<u>-23 450</u>	17 224 )	<u>-51 670</u>
		<u>0</u>		<u>0</u>

[19]

<b>Page 3</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – May/June 2010</b>	<b>9706</b>	<b>43</b>

(c) Current accounts

	D	N	A		D	N	A
	\$	\$	\$		\$	\$	\$
1.1.09 bal b/d		3 500		1.1.09 bal b/d	7 000		
30.6.09 Drawings (1)	11 000	15 000		30.6.09 IOC (1)of	600	450	
30.6.09 bal c/d	8 325			30.6.09 Sh profit (1)of	11 725	11 725	
	<u>19 325</u>	<u>18 500</u>	<u>0</u>	30.6.09 bal c/d		6 325	
1.7.09 bal b/d		6 325			<u>19 325</u>	<u>18 500</u>	<u>0</u>
31.12.09 Drawings (1)	12 000	14 000	18 000	1.7.09 bal b/d	8 325		
31.12.09 bal c/d	14 628		10 984	31.12.09 Salary (1)of			8 000
	<u>26 628</u>	<u>20 325</u>	<u>28 984</u>	31.12.09 IOC (1)of	1 080	840	3 760
1.1.10 bal b/d		2 262		31.12.09 Sh profit (1)of	17 223	17 223	17 224
		(1)of		31.12.09 bal c/d		2 262	
					<u>26 628</u>	<u>20 325</u>	<u>28 984</u>
				1.1.10 bals b/d	14 628		10 984
					(1)of		(1)of

[10]

For illustration only –

Balance sheet at 31 December 2009

Premises (100 000 – 350)	99 650	
Equipment (62 000 – 3 100)	58 900	
Stock	28 000	
Debtors	24 000	
Bank	16 000	
Creditors	-20 000	
Loan	-40 000	
Accrued interest	<u>-1 200</u>	
	<u>165 350</u>	
	D N A	
Capital accounts	27 000 21 000 94 000	142 000
Current accounts	14 628 -2 262 10 984	<u>23 350</u>
		<u>165 350</u>

$$\text{Bank} = 6\,000 + 428\,000 + 6\,500 + 40\,000 - 221\,000 - 3\,500 - 62\,000 - 108\,000 - 70\,000 = 16\,000$$

- (d) Any reasonable answers, e.g.  
 Advantage – strengthening of asset base with an increase in fixed assets in balance sheet.  
 Disadvantage – increased risk of debt. (2 × 2) [4]

[Total: 40]

<b>Page 4</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – May/June 2010</b>	<b>9706</b>	<b>43</b>

2 (a) Income statement (profit and loss account) and appropriation account for the year ended 31 December 2009

	\$		
Operating profit	192 000	(1)of	Interest × 16
Interest	<u>12 000</u>	(1)	
Profit before tax	180 000	(1)of	
Tax	<u>36 000</u>	(1)of	PBT × 20%
Net profit	144 000	(1)of	
Ordinary dividend	54 000	(1)	
Preference dividend	12 000	(3)	
General reserve	<u>30 000</u>	(1)	
Retained profit	<u>48 000</u>	(1)of	

$$(0.22 \times 600\,000) - 144\,000 = 12\,000$$

(1)of (1)of (1)of

[11]

(b) Balance sheet at 31 December 2009

	\$		
Non-current (fixed) assets	610 000	(1)	
Net current assets	<u>420 000</u>	(1)of	
	1030 000		
6% debentures 2018	<u>200 000</u>	(1)	
	<u>830 000</u>		
600 000 ordinary shares of \$0.50	300 000	(1)	
(1)			
240 000 5% preference shares of \$1	240 000	(1)of	
(1)of			
Share premium	150 000	(1)of	
General reserve	30 000	(1)	
Profit and loss	<u>110 000</u>	(1)of	62 000 + 48 000
	<u>830 000</u>		

[10]

(c) (i) Dividend cover  $\frac{144 - 12}{54}$  2.44 times (2)of

(ii) PER  $\frac{2.50}{0.22}$  11.36:1 (2)

(iii) Dividend yield  $\frac{9}{250} \times 100$  3.60% (2)

(iv) Gearing ratio  $\frac{200 + 240}{300 + 200 + 240 + 150 + 30 + 110}$   
 $\frac{440}{1030} = 42.7\%$  (5) (1 mark for any two components plus 1 for answer)

(v) ROCE  $\frac{192}{1030} \times 100 = 18.64\%$  (1)of (1)of [14]

Page 5	Mark Scheme: Teachers' version	Syllabus	Paper
	GCE AS/A LEVEL – May/June 2010	9706	43

- (d) V has higher gearing, higher risk.  
 ROCE of V is higher, but return after interest may not be better.  
 V may pay interest at a higher rate with a premium for the added risk.  
 V has lower dividend cover, hence less assurance of dividends continuing.  
 V's profits, otherwise available for dividend, are being diverted to pay interest.  
 Other reasonable comment. [5]

[Total: 40]

3 (a) Overhead absorption rate

(i) by machine hour	$\frac{42\,760}{2\,800 + 3\,000}$	= \$7.37 per m/hr
	(1) (1)	(1)of
(ii) by labour hour	$\frac{42\,760}{2\,100 + 1\,800}$	= \$10.96 per lab/hr
	(1) (1)	(1)of
(iii) by total DM cost	$\frac{42\,760}{34\,440 + 30\,800}$	= \$0.66 per \$
	(1) for both	(1)of

[8]

(b) DM	3.5 × \$8.8	30.80	(1)
DL	1.8 × \$10	18.00	(1)
Ohds	3 × \$7.37	<u>22.11</u>	(1)of
		70.91	
Profit	50%	<u>35.46</u>	(1)of
		106.37	(1)of

[5]

(c) Overabsorption of overheads:

This means that the amount of overheads added to production costs exceeds the total amount of overheads, because actual production was higher than anticipated when the OAR was calculated.

Underabsorption of overheads:

This means that the amount of overheads added to production costs is less than the total amount of overheads, because actual production was lower than anticipated when the OAR was calculated. (2 × 2) [4]

(d) (i) MPV	2 760	A	(2)
(ii) MUV	1 640	F	(2)
(iii) Total material variance	1 120	A	(2)of
(iv) LRV	440	A	(2)
(v) LEV	2 000	F	(2)
(vi) Total labour variance	1 560	F	(2)of

[12]

<b>Page 6</b>	<b>Mark Scheme: Teachers' version</b>	<b>Syllabus</b>	<b>Paper</b>
	<b>GCE AS/A LEVEL – May/June 2010</b>	<b>9706</b>	<b>43</b>

(e)	4 672/1 600	\$2.92 (1)	
	125 760/1 600	<u>\$78.60</u> (1)	
	Std price	\$81.52 (1)of	[3]

- (f) **Advantages:**  
 Budgets are easier to prepare.  
 Budgets are more realistic.  
 Needed for responsibility accounting.  
 Enables management to understand why actual performance differs from budgets.  
 Facilitates preparation of quotes etc. (4 × 2) [8]

**[Total: 40]**