CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

9706 ACCOUNTING

9706/23 Paper 2 (Structured Questions – Core), maximum raw mark 90

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 May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 (a)

Eagle Manufacturing Limited
Manufacturing Account for the year ended 31 March 2013

	$000s		$000s	
Opening inventory of raw materials	17			
Add purchases	194			
Add carriage in	6	**(1)**		
	217			
Less closing inventory	18			
Direct materials used			199	**(1 of)**
Direct labour 153–16			137	**1**
Prime cost			336	**(1 of)**
Indirect expenses				
Indirect labour	16			
Electricity 30/5×4	24	**(1)**		
Rent 50/5×3	30	**(1)**		
Sundry expenses 12/3×1	4	**(1)**		
Insurance 18/6×5	15	**(1)**		
Depreciation on machinery (420–52) **(1)**×25%**(1)**	92	**(2)**	181	
			517	
Add opening inventory of work in progress			19	**(1**
Less closing inventory of work in progress			15	for both**)**
Factory cost of goods production			521	**(1 of)**

[12]

(b) Income statement for the year ended 31 March 2013

Revenue			816	
Less opening inventory of finished goods	32			
Cost of goods production	521			
Less closing inventory of finished goods	41			
Cost of goods sold			512	
Gross profit			304	
Profit on sale of motor vehicle			1	**(1)**
Less overhead expenses			305	
Electricity	6	**(1)**		
Carriage out	22			
Rent	20	**(1)**		
Salaries	14	**(1)**		
Sundry expenses	8	**(1)**		
Insurances	3	**(1)**		
Depreciation on office fittings	3	**(1)**		
Depreciation on motor vehicles 26–3**(1)**+9**(1)** ×25%**(1)**	8	**(3)**	84	
Profit for the year			221	**[10]**

(c) (i) The shareholders will have their dividend deferred (1) to the next year or when profit. (1)

(ii) The directors need not declare a dividend. **[2]**

(iii) The dividend will not be paid (1) or deferred (1). **[2]**

(iv) The interest will still have to be paid. **[2]**

[Total: 30]

2 (a) (i) $\frac{\text{Gross profit}}{\text{Cost of sales}} \times \frac{100}{1} = \frac{50}{150} = 33.33\%$

(ii) $\frac{\text{Cost of sales}}{\text{Average inventory}} = \frac{150000}{15000} = 10$ times (36.5 days) **[3]**

(iii) $\frac{\text{Trade receivables}}{\text{Credit sales}} = \frac{40000}{160000} \times \frac{365}{1} = 91.25$ days **[3]**

(iv) $\frac{\text{Expenses}}{\text{Sales}} \times \frac{100}{1} = \frac{27500}{200000} \times \frac{100}{1} = 13.75\%$ **[3]**

(v) $\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{40 + 10 + 12.5}{25 + 12.5} = 1.67:1$ **[3]**

(vi) $\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}} = \frac{40 + 10}{25 + 2.5} = 1.33:1$ **[3]**

(vii) $\frac{\text{Net sales}}{\text{Non - current assets at NBV}} = \frac{200}{60} = 3.33$ times **[3]**

(b) B M Reid is less successful in 2012 **(1 OF)**

Inventory turnover is worse **(1)** due to higher prices **(1)**, less advertising **(1)**, economic downturn **(1)**. Trade receivables turnover is worse **(1)** due to poor credit control **(1)**, reduced discounts for prompt payment **(1)**, economic downturn **(1)**. [Maximum 5] **[5]**

(c) May be based on untypical data **(2)**; inter-firm comparisons may be faulty due to different methods of collecting information, e.g. different depreciation **(2)**; do not indicate causes of poor ratios **(2)**; may only be used to compare similar businesses **(2)**; ignore time factor in seasonal businesses **(2)**; misleading if not adjusted for inflation **(2)**. [Maximum 4] **[4]**

[Total: 30]

3 (a) (i)

		$
March 31	20**(1)** @ 32.00 **(1)**	640 **(1)**

[3]

(ii)

		$
March 31	20 **(1)** @ 31.49 **(1)**	629.80 **(1)**

[3]

(b) (i)

	$		$	
Revenue			31 000	**(1)**
Opening inventory	1 500	**(1)**		
Purchases	18 290	**(1)**		
	19 790			
Closing inventory	640	**(1of)**	19 150	
Gross profit			11 850	**(1of)**

[5]

(ii)

	$		$	
Revenue			31 000.00	
Opening inventory	1 500.00			
Purchases	18 290.00			
	19 790.00			
Closing inventory	629.80	**(1of)**	19 160.20	
Gross profit			11 839.80	**(1of)**

[2]

(c) (i) Advantages

- Relatively easy to calculate.
- Realistic – Inventory is bought and sold in order.
- Inventory values are based on actual prices paid for Inventory.
- Closing Inventory valuation is based on most recent prices paid.
- Acceptable under IAS.

Disadvantages

- The price at which Inventory is issued to production is likely to be out of date.
- When the prices of Inventory rise, the FIFO method values the Inventory at the highest (latest prices). This would reduce cost of sales and therefore increase profit. This would mean more tax would have to be paid.

(2 × 1 marks)

[2]

(ii) Advantages

- It is logical since all identical units of Inventory are given an equal value.
- Fluctuations in the purchase price of Inventory are evened out so the impact on costs and profit is reduced.
- It conforms to the IAS.

Disadvantages

- The average cost has to be recalculated every time the price of purchased Inventory changes.
- The average cost might not be the same as the actual cost paid.
- If Inventory prices are rising rapidly, the average cost will be lower than the replacement price.

(2 x 1 marks)

[2]

(d)

- Needs to be consistent
- Window dressing of accounts not allowed
- Comparing results from one year to the next meaningless
- Falsely manipulating of accounts/true and fair view

Any two answers for 2 marks each to a maximum of 4 **[4]**

(e)

Details	+ $	– $	$
Value at 7 April			1000 **(1)**
Goods sold	96 **(2)**		
Goods purchased		70 **(1)**	
Returns inwards		64 **(2)**	
Goods damaged		10 **(1)**	
	96	144	48
Value at 31 March			952 **(2cf 1of)**

[9]

[Total: 30]