CAMBRIDGE INTERNATIONAL EXAMINATIONS
**Cambridge International Advanced Subsidiary and Advanced Level**

# MARK SCHEME for the May/June 2015 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.

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CAMBRIDGE
International Examinations

**1 (a)**

Vikran
Manufacturing account for the year ended 30 June 2014

| | $ | | $ | |
|---|---|---|---|---|
| Raw materials | | | | |
| Inventory at 1 July 2013 | 39 000 | **)*** | | |
| Purchases | 162 000 | | | |
| Purchase returns | (1 200) | | | |
| Carriage inwards | 4 200 | | | |
| | 204 000 | | | |
| Inventory at 30 June 2014 | (46 000) | **)*(1) both** | 158 000 | **(1) CF** |
| Manufacturing wages | | | 259 100 | **(1)** |
| Prime cost *(must be labelled)* | | | 417 100 | **(1) OF** |
| Overheads | | | | |
| Factory supervision salaries | 12 400 | **)** | | |
| General factory expenses | 8 100 | **) (1)** | | |
| Indirect factory wages | 36 800 | **)** | | |
| Heat and light ($5400 + $600 **(1)**) × 85% | 5 100 | **(1) OF** | | |
| Insurance ($12 000 – $4000 **(1)**) × 80% | 6 400 | **(1) OF** | | |
| Rent and rates $42 000 × 85% | 35 700 | **(1) CF** | | |
| Depreciation plant and machinery ($270 000 – $90 000) × 15% | 27 000 | **(1) CF** | 131 500 | |
| | | | 548 600 | |
| Work in progress at 1 July 2013 | 48 000 | **(1)** | | |
| Work in progress at 30 June 2014 | 54 000 | **(1)** | (6 000) | |
| Production cost of finished goods *(must be labelled)* | | | 542 600 | **(1) OF** |

**[14]**

**(b)**

Vikran
Income statement for the year ended 30 June 2014

| | | $ | | $ | |
| --- | --- | --- | --- | --- | --- |
| Sales revenue | | | | 768 500 | |
| Returns inwards | | | | (1 800) | |
| | | | | 766 700 | **(1) CF** |
| Cost of sales | | | | | |
| Opening inventory finished goods | | 57 000 | **(1)** | | |
| Cost of production | | 542 600 | **(1) OF** | | |
| Purchase finished goods | | 2 100 | **(1)** | | |
| | | 601 700 | | | |
| Closing inventory finished goods | | (52 000) | **(1)** | 549 700 | |
| Gross profit *(must be labelled)* | | | | 217 000 | **(1) OF** |
| Provision for doubtful debts | | | | 610 | **(1)** |
| | | | | 217 610 | |
| Deduct: expenses | | | | | |
| Office salaries | | 37 300 | **(1)** | | |
| Heat and light | | 900 | **)** | | |
| Rent and rates | | 6 300 | **)(1)** | | |
| Insurance | | 1 600 | **)** | | |
| Depreciation office equipment | W1 | 7 800 | **(1)** | | |
| Bad debt written off | | 1 800 | **(1)** | 55 700 | |
| Profit for the year *(must be labelled)* | | | | 161 910 | **(1) OF** |

**Workings**
W1 Depreciation ($90 000 – $38 000) × 15% = $7800 **[12]**

**(c)** Depreciation represents that part of the cost of an asset that is consumed during the accounting period **(1)**. This follows the matching (accruals) concept **(1)**. The value of an asset decreases over time due to, for example, wear and tear, obsolescence **(max 1 mark for examples)**. Depreciating the value of a non-current asset avoids overstating the net assets of the business **(1)** and ensures that the statement of financial position shows a true and fair view **(1)**.

**[Max 4]**

**[Total: 30]**

**2 (a)**

| Ratio | Formula | Calculation |
|---|---|---|
| Inventory turnover | (Average inventory / cost of sales) × 365 **(1)** | $\dfrac{(50\,000+65\,000)/2}{50\,000+280\,000-65\,000}$ **(1)** **(1)** <br> × 365 = 79.2 days **(1 OF)** |
| Trade receivables turnover | Trade receivables / credit revenue × 365 **(1)** | $\dfrac{45\,000}{425\,000}$ <br> × 365 = 38.6 days **(1)** |
| Trade payables turnover | Trade payables / credit purchases × 365 **(1)** | $\dfrac{22000}{280000}$ <br> × 365 = 28.7 days **(1)** |
| Non-current asset turnover | Revenue / Non-current assets at NBV **(1)** | $\dfrac{425\,000}{350\,000}$ ) **1 OF** = 1.21 times **(1)** |
| Current ratio | Current assets / current liabilities **(1)** | $\dfrac{110\,000}{40\,000} = 2.75:1$ **(1)** |

**[13]**

**(b) (i)** Inventory turnover is slow. This suggests low sales which impacts on profit and cash flow. There will be higher holding costs including the risk of obsolescence. **[3]**

**(ii)** Customers are paying after the credit terms.
This suggests poor credit control procedures.
Cash flow will be slower and there will be a higher risk of bad debts. **[3]**

**(iii)** Suppliers are being paid early. This adversely affects cash flow especially as suppliers are being paid before customers pay. It is likely however that prompt payment cash settlement discounts will be available.
**[1 mark for valid point to max 3 in each case]** **[3]**

**(c)** Partnership:

Advantages:
- Possibly more capital
- Shared risk and workload

Disadvantages:
- Unlimited liability
- Need to earn more profit than a sole trader to support partner.
- Possible disputes between partners.

**[1 mark per valid point to max of 4]**

Private limited company:

Advantages:
- Limited liability
- Shared workload

Disadvantages:
- Possible disputes between shareholders
- Not all shareholders may take part in running the business

**[1 mark per valid point to max of 4]** **[8]**

**[Total: 30]**

**3** **(a)** $14.00 – (3.20 + 2.40) **(1)** = $8.40 **(1) OF** **[2]**

**(b)** Marginal cost

| | February | | | | March | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| | $ | | $ | | $ | $ | |
| Sales | | | 182 000 | **)** | | 238 000 | **(1) both** |
| Opening inventory | - | | | | 11 200 | | |
| Production cost | 84 000 | | | | 84 000 | | **(1)** |
| Closing inventory | (11 200) | **(1)** | 72 800 | **(1) OF** | - | 95 200 | **(1) OF** |
| Contribution | | | 109 200 | **(1) OF** | | 142 800 | **(1) OF** |
| Fixed costs | | | 88 000 | | | 88 000 | |
| Profit | | | 21 200 | **(1) OF** | | 54 800 | **(1) OF** |

**[9]**

**(c)** Absorption cost
Overhead absorption rate = $88 000 / 16 000 = $5.50 per unit **(1)** **[1]**

**(d)** Absorption cost

| | February | | | | March | | |
| --- | --- | --- | --- | --- | --- | --- | --- |
| | $ | | $ | | $ | $ | |
| Sales | | | 182 000 | | | 238 000 | |
| Opening inventory | – | | | | 22 200 | | |
| Production cost | 166 500 | | | | 166 500 | | **(3)** |
| Closing inventory | (22 200) | **(2)** | 144 300 | **(1) OF** | – | 188 700 | **(1) OF** |
| | | | 37 700 | | | 49 300 | |
| Under absorption | | | 5 500 | **(1) OF** | | 5 500 | **(1) OF** |
| Profit | | | 32 200 | **(1) OF** | | 43 800 | **(1) OF** |

3 marks split 22 200 **(1)**of, 166 500 **(1) OF** and 166 500 **(1) OF**.
Closing inventory 2000 **(1)** × 11.10 = 22 200 **(1) OF**. **[11]**

**(e)** Profit per marginal costing $21 200 **(1) OF**
Closing inventory 2000 × $5.50 $11 000 **(1)**
Profit per absorption costing $32 200 **(1) OF** **[3]**

**(f)** Using marginal costing fixed costs are written off in the month they are incurred **(1)**
Using absorption costing they are treated as part-off the cost of inventory and carried forward **(1)** to the next month. **(1)**
Therefore closing inventory using absorption costing will be valued **(1)** at a higher figure **(1)** which will increase the profit for the month.

**[Max 4]**
**[4]**

**[Total: 30 marks]**