UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

9706 ACCOUNTING

9706/22 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 must be read in conjunction with the question papers and the report on the examination.

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1 (a)

Kirsty
Income Statement (trading and profit and loss account)
for the year ended 30 April 2011

	$	$		$
Revenue (sales) (108 000 – 4 800)				103 200**(1)**
Opening Inventory (Stock)	3 600			
Ordinary goods purchased (Purchases) (56 000 – 1 800 **(1)** – 2 500 **(1)**)	51 700			
		55 300		
Less Closing Inventory (Stock)		4 200		
Cost of Sales				51 100
Gross Profit				52 100
Discounts received		400	**(1)**	
Commission received		880		
Provision for doubtful debts*		216	**(3of)**	
				1 496
				53 596
Less Expenses				
Rent		4 000		
General expenses		4 800		
Insurance		2 840		
Salaries		14 000		
Electricity		2 380		
Motor expenses		4 900		
Bad debts		200	**(1)**	
Loan interest		1 500	**(1)**	
Carriage outwards		700		
Discounts allowed		600	**(1)**	
Depreciation – equipment		4 920	**(1)**	
Depreciation – motor vehicles		6 300	**(1)**	
				47 140
Profit for the year (Net Profit)				6 456

[12]

* 6200 – 200 – 800 = 5200 × 2% = 104 + 200 = 304 deducted from 520 = 216

(b)

Kirsty

Statement of Financial Position (Balance Sheet) at 30 April 2011

	$	$	$	
Non-Current (Fixed) Assets				
Equipment			29 880	
Motor vehicles			18 900	
			48 780	**(1)**
Current Assets				
Inventory (stock)		4 200		
Trade receivables (debtors)		5 096		
Insurance prepaid		460 **(1)**		
Bank		3 400		
Commission receivable		150 **(1)**		
		13 306		
Current Liabilities				
Trade payables (creditors)	3 800			
Loan interest owing	250			
Electricity owing	380 **(1)**			
Loan	7 500 **(1)**			
		11 930		
Working capital			1 376	
Total assets less current liabilities			50 156	
Non-Current (long term) Liabilities				
Loan		7 500 **(1)**		
			7 500	
			42 656	
Financed by:				
Capital			44 000	
Profit for the year (Net Profit)			6 456	**(1of)**
			50 456	
Drawings			7 800	**(1)**
			42 656	

[8]

(c) 54 000 + 1 000 + 2 000 = 57 000 **(2)** **[2]**

(d) (57 000 – 4 000 **(1)**) / 5 = 10 600 **(1)** **[2]**

(e)

Disposal of Machinery

	$			$	
Machinery	57 000	**(1)**	Depreciation	42 400	**(1)**
			Bank **(1)**	12 000	**(1)**
			Profit and Loss **(1)**	2 600	**(1)**
	57 000			57 000	

[6]

[Total 30]

2 (A) (a)

Sales Ledger Control Account

	$			$	
Balance b/d	43 900	**(1)**	Bank	436 300	
Credit Sales	522 250	**(1)**	Returns Inwards	30 110	**(1)**
Dishonoured Cheques	2 200		Bad Debts	9 250	**(1)**
Interest charged	30	**(1)**	Contra (purchases ledger)	5 190	**(1)**
			Discount allowed	28 800	
			Balance c/d (closing debtors)	58 730	
	568 380			568 380	

[6]

Alternative answer

Sales Ledger Control Account

	$			$	
Balance b/d	63 530	**(1)**	Bad debts	850	**(1)**
Interest charged	30	**(1)**	Contra / set off	1 980	**(1)**
			Goods on return basis	400	**(1)**
			Sales returns	1 600	**(1)**
			Balance c/d (closing debtors)	58 730	
	568 380			568 380	

(b)

Schedule of Trade Receivables (debtors)

	$	
Opening balance	61 140	**(1)**
Error 1	180	**(1)**
Error 3	–240	**(2)**
Error 4	–1 980	**(1)**
Error 5	30	**(1)**
Error 6	–400	**(1)**
	58 730	**(1of)**

[8]

(c) Provides an independent check on the postings in the sales ledger.
Errors in the ledger can be located quickly.
Segregation of duties helps in the prevention of fraud because members of staff who complete the control accounts are not involved in completing the sales ledger.
Totals of trade receivables (debtors) from control accounts can be determined quickly and used in preparation of the trial balance and final accounts.

(Any two points – 2 each) **[4]**

2(B) (a) Profit for the year = (880 000 × 25%) – 130 000 = \$90 000 **(2)** **[2]**

(b) (i) Return on capital employed

$$= \frac{\text{Profit for year}}{\text{Capital Employed}} \times 100$$

$$= \frac{90\,000}{1125\,000} \times 100$$

$$= \underline{\underline{8\%}}\ \textbf{(2of)}$$

(ii) Inventory Turnover

$$= \frac{\text{Cost of sales}}{\text{Average stock}}$$

$$= \frac{880\,000}{(45\,000 + 65\,000)/2}$$

$$= \frac{880\,000}{55\,000}$$

$$= \underline{\underline{16 \text{ times}}}\ \textbf{(2)}$$

(iii) Liquid (acid test) ratio

$$= \frac{\text{Current Assets} - \text{Closing Stock}}{\text{Current Liabilities}}$$

$$= \frac{(65\,000 + 150\,000) - 65\,000}{100\,000 + 50\,000}$$

$$= \frac{150\,000}{150\,000}$$

$$= \underline{\underline{1 : 1}}\ \textbf{(2)}$$

[6]

(c) **<u>Paradis Foods</u>**

1. The return on capital employed is high at 15%. It is higher than S Turner is currently obtaining.
2. The current ratio is good and possibly too high with excess stock. The level of the current ratio is well in excess of S Turners'.
3. The liquid ratio seems low for a general trading business.

<u>Jones Wholesaler</u>

1. The return on capital employed is low at 6%. It is much lower than S Turner is currently obtaining.
2. The current ratio is good and within the range of 1.5 and 2.0 that we would expect to see.
3. The liquid ratio is high at 1.4 : 1 indicating high debtors or cash.

(Any three points – 1 each + 1of for decision) **[4]**

[Total 30]

3 (a) (i)

Selling price per unit		35 **(1)**	
Variable costs per unit			
Direct materials	8 **(1)**		
Direct labour	10 **(1)**		
Direct overheads	2 **(1)**		
		20	
Contribution per unit		15 **(1of)**	**[5]**

(ii) 180 000 **(1)** / 15 **(1of)**
= 12 000 **(1of)** units **[3]**

(iii) Margin of safety = 25 000 **(1)** – 12 000 **(1of)** = 13 000 units
13 000 / 25 000 **(1)** × 100 = 52% **(1of)** **[4]**

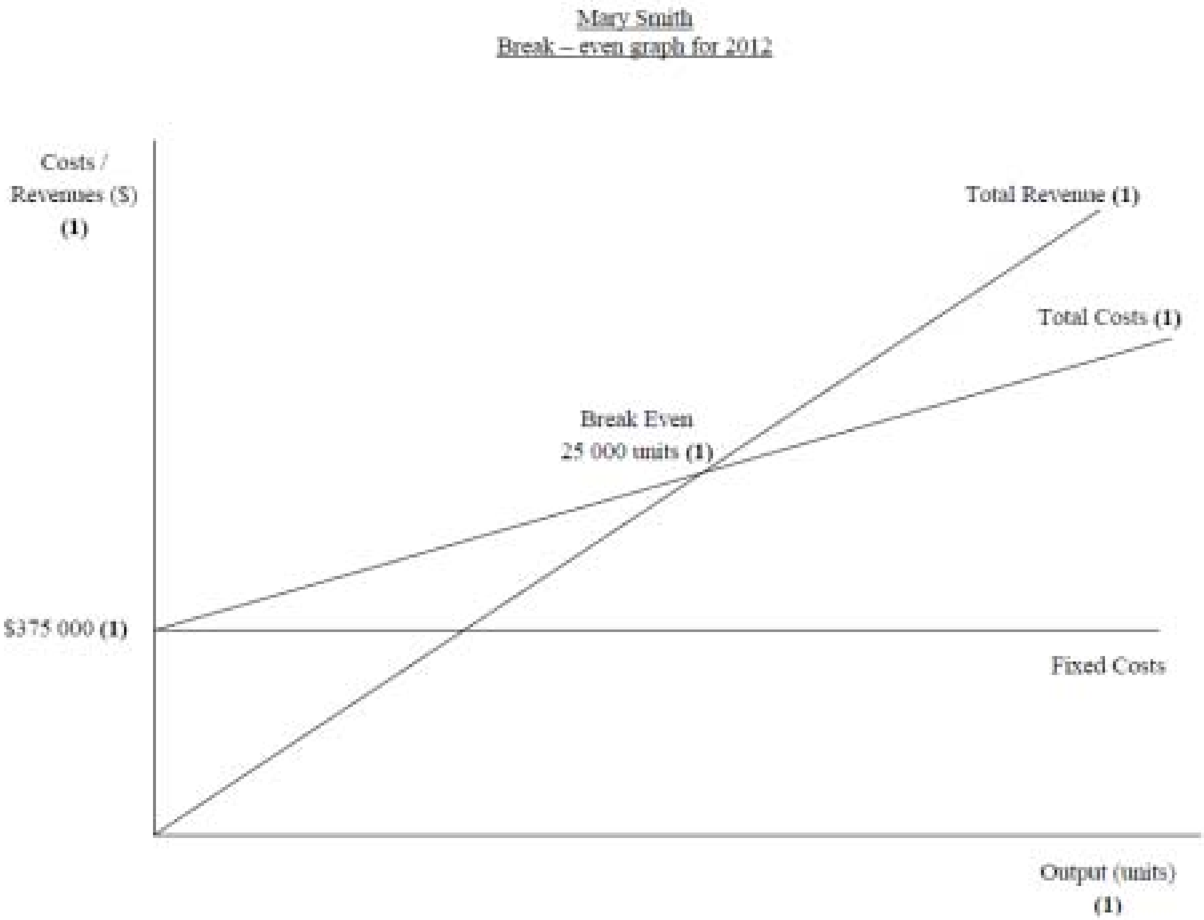
(b) Depreciation
Admin costs — Rent
Insurance — Advertising/marketing
Rates — Indirect wages
Loan interest
Or other suitable alternative.

(Any three examples – 1 mark each) **[3]**

(c) Stepped costs occur when a business increases capacity. As a result of expansion overheads such as insurance, rent and rates and bank interest payments are likely to increase. On a break even chart these increases would result in a horizontal fixed cost line moving to a higher level beyond the output at which increased capacity occurs.

(2 × 1 mark) **[2]**

(d)



Marks awarded for label or figure and label where both are given **[6]**

(e) If budgeted data is reasonably accurate and the budgeted level of activity could be maintained in future years then the business would generate more **profits** ($225 000 v $195 000) by increasing capacity.

The **margin of safety** will also be higher in unit terms (15 000 v 13 000) but lower in percentage terms (37.5% v 52%).

The business will make no profit following expansion if sales return to the previous level as the new **break-even** is the same as the previous sales / output.
The **capital cost** of $3 000 000 is likely to result in interest payments which would have to be met irrespective of profit performance.

(2 × 3 marks + 1 mark for evaluation) **[7]**

[Total: 30]