CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 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.

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1 (a) Shop income statement for the year ended 31 May 2013

	$		$	
Revenue (sales)			120 000	**(1)**
Cost of sales				
Inventory (1 June 2012)	8 500	**(1)**		
Purchases	32 500	**(1)**		
	41 000			
Inventory (31 May 2013)	4 800	**(1)**		
	36 200			
Add Direct wages (27 000 + 3000 – 1000)	29 000	**(2)**	65 200	
Gross profit			54 800	
LESS				
Overhead				
Insurance (20% × 11 000)	2 200	**(1)**		
Heating and lighting (20% × 20 000)	4 000	**(1)**	6 200	
PROFIT (NET)			48 600	**[8]**

(b) Income and Expenditure account for the year ended 31 May 2013

	$		$	
Shop profit	48 600	**(1)OF**		
Subscriptions				
(44 000 + 4000 – 4200 + 5600 – 3500)	45 900	**(5)**		
Donations	450	**(1)**		
Interest on deposit account	90	**(1)**	95 040	
Fitness coach – wages	16 000			
Insurance 80% × (12 000 – 1000)	8 800	**(1)**		
Heating and lighting (80% × 20 000)	16 000	**(1)**		
Loan interest 6% × (40 000 ÷ 2)	1 200	**(1)**		
Depreciation – sports equipment	9 400	**(1)**		
Printing and stationery	5 500	**(1)**		
Sundry expenses	800	**(1)**	57 700	
Surplus income/expenditure			37 340	**[14]**

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(c) Statement of Financial Position at 31 May 2013

		$ Cost		$ Depreciation		$ NBV	
Non-current assets							
Premises						100 000	
Equipment		115 000		14 400		100 600	**(1)**
						200 600	
Current Assets							
Inventory		4 800					
Subscriptions in arrears		5 600					
Insurance prepaid		1 000					
Bank – deposit account		2 390					
Bank – current account		15 350	**(1)**				
Cash		250					
				29 390	**(1)**		
Current liabilities							
Subscriptions prepaid		3 500					
Loan interest		1 200					
Wages accrued		3 000		7 700	**(1)**	21 690	
						222 290	
Non-current liabilities							
Loan						40 000	**(1)**
Net assets						182 290	
Accumulated fund		144 950	**(2)**				
ADD Surplus I/E		37 340	**(1)OF**			182 290	

Accumulated fund calculation

Assets		
Premises		100 000
Equipment (30 000 – 5000)		25 000
Inventory		8 500
Bank – deposit account		2 000
Bank – current account		10 000
Cash		250
Subscriptions due		4 200
		149 950
Less liabilities		
Subscriptions prepaid	4 000	
Wages accrued	1 000	5 000
		144 950

[8]

[Total: 30]

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2 (a) (i) Gross profit = 35% of sales = $29 750 000 **[2]**

(ii) Cost of sales = sales – gross profit = $55 250 000 **[2]**

(iii) Average inventory = $\frac{\text{Cost of sales}}{\text{Inventory turnover}}$ = $5 525 000

Closing inventory = (Average inventory × 2) – opening inventory
= 11 050 000 **(3)** – 7 800 000 **(1)** = $3 250 000 **[4]**

(iv) Purchases = Cost of sales + closing inventory – opening inventory
= 55 250 000 **(1)** + 3 250 000 **(1)** – 7 800 000 **(1)** = $50 700 000 **[3]**

(v) Net profit for year = 14% of sales = $11 900 000 **[2]**

(vi) Expenses = Gross profit – profit for year = $17 850 000 **[2]**

(vii) Trade payables = $\frac{\text{Purchases} \times \text{TP turnover rate}}{365}$

= $\frac{50\,700\,000\ \textbf{(1)} \times 42\ \textbf{(1)}}{365\ \textbf{(1)}}$ = $5 833 972 **[3]**

(viii) Trade receivables = $\frac{\text{Sales} \times \text{TR turnover rate}}{365}$

= $\frac{85\,000\,000\ \textbf{(1)} \times 58\ \textbf{(1)}}{365\ \textbf{(1)}}$ = $13 506 849 **[3]**

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(b) Shareholders and potential shareholders (1)
Interested in: sales and profit trends **(1)** future performance **(1)** profit available for distribution **(1)** yield on investment **(1)** ease of payment of dividends from profits **(1)** management of funds **(1)**

Creditors (1)
Interested in: working capital **(1)** acid test **(1)** profitability **(1)** order of claim in event of liquidation **(1)**

Lenders (1)
Interested in: purpose for which loan needed **(1)** security of loans **(1)** profit trends (interest) **(1)** current ratio **(1)** book values of non-current assets compared to saleable value **(1)** order of claim in event of liquidation **(1)**

Government bodies (1)
Interested in: wages (income tax) **(1)** profits (corporation tax) **(1)** VAT returns **(1)** forecasts of future expansion **(1)**

Employees and Trade Unions (1)
Interested in: profits earned this year **(1)** potential and past profits **(1)** future prospects **(1)** dividends **(1)**

Marks awarded are **one** for each user to a maximum of 3 and a maximum of **two** for the information required by **each** of those users.

In **(b)**, correct answers outside the AS syllabus **will** be accepted. Above answers are **not** exclusive.

[max 9]

[Total: 30]

3 (a) (i)

	Total ($)	Machining ($)	Finishing ($)	Stores ($)	
Depreciation of plant (Basis – Value of plant)	6 000	5 375	500	125	**(1 for all)**
Lighting and heating (Basis – Floor area)	4 500	2 250	2 025	225	**(1 for all)**
Plant insurance (Basis – Value of plant)	4 800	4 300	400	100	**(1 for all)**
Rent (Basis – Floor area)	18 000	9 000	8 100	900	**(1 for all)**
Supervision (Basis – No of employees)	25 000	12 000	8 000	5 000	**(1 for all)**
	58 300	32 925	19 025	6 350	

[5]

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(ii)

	Machining ($)	Finishing ($)	Stores ($)
From part **(a)**	32 925	19 025	6 350
Apportion Spares (No of orders)	4 500 **(1)of**	1 850 **(1)of**	(6 350) **(1)of**
	37 425 **(1)of**	20 875 **(1)of**	–

[5]

(b) Machining department $37 425 **(1)of** ÷ 4250 **(1)** = $8.81 per machine hour **(1)of**

Finishing department $20 875 **(1)of** ÷ 4950 **(1)** = $4.22 per direct labour hour **(1)of** **[6]**

(c) Machining department $8.81 **(1)of** × 6000 **(1)** = $52 860 **(1)of**

Finishing department $4.22 **(1)of** × 5000 **(1)** = $21 100 **(1)of** **[6]**

(d)

	Absorbed	Charged	
Machining department	$52 860	$48 340	$4520 **(1)of** over absorbed **(1)of**
Finishing department	$21 100	$22 780	$1680 **(1)of** under absorbed **(1)of**

[4]

(e) Actual hours worked differs from forecast hours **(1)**. When more hours are actually worked than forecast this will result in an over absorption **(1)**. When fewer hours are actually worked than forecast this will result in under absorption **(1)**. This means that production will be charged with more or less overheads **(1)**. **[4]**

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