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

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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) $\times$ 365 **(1)**	$\dfrac{(50\,000 + 65\,000)/2}{50\,000 + 280\,000 - 65\,000}$ **(1)** **(1)** $\times$ 365 = 79.2 days **(1 OF)**
Trade receivables turnover	Trade receivables / credit revenue $\times$ 365 **(1)**	$\dfrac{45\,000}{425\,000}$ $\times$ 365 = 38.6 days **(1)**
Trade payables turnover	Trade payables / credit purchases $\times$ 365 **(1)**	$\dfrac{22000}{280000}$ $\times$ 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]