UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2010 question paper

for the guidance of teachers

9706 ACCOUNTING

9706/22 Paper 22 (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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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) Manufacturing Account for the year ended 30 April 2010

	$000	$000		
Raw materials				
Stock at 1 May 2009		164	1	
Purchases		2628	1	
		2792		
Stock at 30 April 2010		202	1	
Cost of raw materials consumed		2590		
Manufacturing wages		520	1	
Prime cost		3110		
Factory overheads				
Factory expenses	432		1	
Factory depreciation	700	1132	1	
		4242		
Work in progress				
Stock at 1 May 2009	146		1	
Stock at 30 April 2010	128	18	1	
Factory cost of production		4260		[8]

(b) Income Statement (Trading and Profit and Loss Account) for year ended 30 April 2010

	$000	$000		
Sales		5684	1	
Stock of finished goods at 1 May 2009	292			
Cost of production	4260			
	4552			
Inventory (stock) of finished goods at 30 April 2010	252	4300	1	
Gross profit		1384		
Reduction in provision for doubtful debts	6		1	
Income from rent	48	54	1	
		1438		
Depreciation	238		1	
Bank charges	12		1	
Bank interest	38		1	
Office expenses	348		1	
Salaries	222		1	
Sales expenses	248		1	
Bad debt written off	14	1120	1	[11]
Net profit		318		

(c) Balance Sheet at 30 April 2010

		$000	$000	$000		
		Cost	Deprec	NBV		
Non-current (fixed) assets						
Factory		2800	1800	1000	**2**	
Office		952	618	334	**2**	
		3752	2418	1334		
Current assets						
Inventories (stocks)						
Raw materials		202				
Finished goods		252				
Work in progress		128				
		582			**1**	
Trade receivables	466				**1**	
prov for d debts	10	456	1038		**1**	
Current Liabilities						
Trade payables		426			**1**	
Bank		290	716	322	**1**	
				1656		
Capital at 1 May 2009				1338	**1**	
Net profit				318	**1**	**[11]**
				1656		

[Total: 30]

2 Data

Non-current (fixed) assets	Machinery	Motor Vehicles
	$000	$000
Cost 1 May 2008	4200	3200
Additions during year	1200	800
Less disposals during year	-700	-1000
Cost 30 April 2009	4700	3000
Depreciation balance at 1 May 2008	1560	840
Add charge for year	470	750
Less on disposals for year	-520	-800
Depreciation balance at 30 April 2009	1510	790

Percentage depreciation

Machinery $\dfrac{470 \times 100}{4700}$ 10%

Motor vehicles $\dfrac{750 \times 100}{3000}$ 25%

(a) (i) Disposal accounts

Machinery

		$000		$000	
Cost	**1**	400	Depn 4 years	160	**1**
			Cash	200	**1**
			Loss	40	**1of**
		400		400	

Vehicles (item 2)

Cost	**1**	400	Depn 3 years	300	**1**
Profit	**1of**	20	Part exch	120	**1**
		420		420	

Vehicles (item 3)

Cost	**1**	360	Depn 1 year	90	**1**
			Bank	210	**1**
			Loss	60	**1of**
		360		360	

[12]

DOES NOT NEED TO BE IN THE FORM OF ACCOUNTS

(ii) Non-current (fixed) asset schedule

		Machinery	Motor Vehicles	
		$000	$000	
Cost at 1 May 2010		4700	3000	
Additions during year	**1**	900	840	**1**
Less disposals during year	**1**	-400	-760	**1**
Cost at 30 April 2011		5200	3080	
Depreciation at 1 May 2010		1510	790	
Add charge for year	**1of**	520	770	**1of**
Less on disposals during year	**1of**	-160	-390	**1of**
		1870	1170	

[8]

(b) **(i)** 1 Wear and tear
2 Obsolescence
3 Time
4 Depletion
No marks for methods. Any three correct for (3) **[3]**

(ii) 1 Machinery, vehicles
2 Computers, any technological equipment
3 Lease
4 Quarry, oil well etc.
Any three correct for (3) **[3]**

(c) 1 Cost or Market value
2 Useful life
3 Residual value at end of useful life
4 Expected length of ownership
5 Rate of usage
6 Method of depreciation
7 Type of asset
8 Machine hours
Any correct 4 for (4) **[4]**

[Total: 30]

3 **(a)** **(i)** The break-even point is the level of activity at which the business makes neither a profit nor a loss – i.e. total contribution = total fixed costs. (accept a relevant formula) [2]

(ii) The margin of safety is the distance between the break-even point and the expected level of activity. It is the amount by which actual activity can fall short of expected activity before a loss is incurred. [2]

[4]

DATA		
	Sales	460 000
	Variable costs	299 000
	Fixed costs	90 000

(b) $\frac{\text{Sales - variable costs}}{\text{Sales}} \times 100$ $\qquad$ $\frac{\overset{\mathbf{1}}{460} - \overset{\mathbf{1}}{299}}{\underset{\mathbf{1}}{460}} \times 100$ $\qquad$ 35% **1of** **[4]**

(c) $\frac{\text{Fixed costs}}{\text{c/s ratio}} \times 100$ $\qquad$ $\overset{\mathbf{1}}{90\,000} \times \frac{100}{\underset{\mathbf{1of}}{35}}$ $\qquad$ \$257 143 **1of** **[3]**

(d) $(\text{Fixed costs} + \text{profit}) \times \frac{100}{\text{c/s ratio}}$ $\qquad$ $(\overset{\mathbf{1}}{90\,000} + \overset{\mathbf{1}}{100\,000}) \times \frac{100}{\underset{\mathbf{1of}}{35}}$ $\qquad$ \$542 857 **1of** **[4]**

(e) $\text{Sales} \times \text{c/s ratio - fixed costs}$ $\qquad$ $(\overset{\mathbf{1}}{375\,000} \times \overset{\mathbf{1of}}{\frac{35}{100}}) - \overset{\mathbf{1}}{90\,000}$ $\qquad$ \$41 250 **1of** **[4]**

OR $\underset{\mathbf{1}}{375\,000} - (\underset{\mathbf{1of}}{.65 \times 375\,000} + \underset{\mathbf{1}}{90\,000})$ $\qquad$ \$41 250 **1of**

(f) Revised contribution = sales - 5% - variable costs

460 000 - 23 000 - 299 000	$138 000
1 **1** **1**	**1of**

$$\text{Revised c/s ratio} = \frac{\text{revised contribution}}{\text{new sales}} \times 100$$

$$\frac{\overset{\textbf{1of}}{\$138\,000 \times 100}}{\underset{\textbf{1}\quad\textbf{1}}{460\,000 \times 0.95}} \qquad 31.57895\%$$

$$\text{Fixed costs} + \text{profit} \times \frac{100}{\text{c/s ratio}}$$

$$= (\overset{\textbf{1}}{90\,000} + \overset{\textbf{1}}{80\,000}) \times \frac{100}{\underset{\textbf{1of}}{31.57895}} \qquad \underset{\textbf{1of}}{\$538\,333}$$

Accept answers between $531 250 and $548 387 – answer depends on number of decimal places revised c/s ratio is taken to. **[11]**

ALTERNATIVE METHODS ACCEPTABLE THROUGHOUT

[Total: 30]