UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2012 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.

- Cambridge will not enter into discussions or correspondence in connection with these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2012 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

UNIVERSITY of CAMBRIDGE International Examinations

1 (a) **Manufacturing Account for the year ended 30 April 2012**

	$		$		
Raw Materials					
Inventory (1.05.11)			20 000	**1**	
Add Purchases of raw materials	238 000	**1**			
Less Purchase returns	10 000	**1**	228 000		
			248 000		
Less Inventory (30.04.12)			56 000	**1**	
Cost of raw materials consumed			192 000	**1**	
Direct costs					
Manufacturing wages			265 000	**1**	
Prime cost			457 000	**1**	
Factory Overhead					
Indirect factory wages (46 + 5)	51 000	**2**			
Insurance (14 – 7) × 70%	4 900	**2**			
General expenses	6 000				
Factory supervision salaries	15 000	**1**			
Heat and light 6 000 × 80%	4 800	**2**			
Depreciation (260 – 60) × 20%	40 000	**2**	121 700		
			578 700		
Work-in-progress					
Add inventory (1.05.11)	52 000	**1**			
Less inventory (30.4.12)	58 000	**1**	(6 000)		
Factory cost of production		**1OF**	572 700		[19]

If Depreciation on Factory Premises, $120 000 is included, ignore it. Factory cost of production will now be $692 700 if all else is correct.

(b) **Income Statement for the year ended 30 April 2012**

Sales			799 000		
Less Cost of Sales					
Inventory of finished goods (1.05.11)	78 000				
Transfer value of finished goods	572 700			**1OF**	
	650 700				
Less inventory of finished goods (30.04.12)	72 000		578 700		
Gross profit			220 300	**1OF**	
Decrease in provision DD			800	**1**	
			221 100		
Insurance	2 100	**1**			
Heat and light	1 200	**1**			
Admin expenses	33 000				
Office salaries	55 000	**1**			
Depreciation	20 800	**1**			
			112 100		
Net profit			109 000	**1OF**	[8]

(c) Examples

1 Value of opening and closing inventory at lower of cost or net realisable value.

2 Depreciation of non-current assets charges the estimated amount of the asset consumed against profit.

3 Any other valid point, provision for depreciation, accruals/prepayments.

One mark per valid point.
Not provision for unrealised profit – must apply to Bart's accounts. [3]

[Total: 30]

2 (a)

Sales	Net profit				
200 000	12 000				
400 000	32 000				
500 000	40 000				
860 000	86 000				
Net profit	170 000	**1**			
			Average	42 500	**1**
			Two years	85 000	**1**

[3]

(b) **Capital accounts**

	M	A		M	A	
	$	$		$	$	
	2	**2**		**1**		
Goodwill	51 000	34 000	Balance b/d	442 000		
	1OF	**1OF**		**1**		
Balance c/d	476 000	286 000	Goodwill	85 000		
			Bank		200 000	**1**
			Vehicles		94 000	**1**
			Inventory		26 000	**1**
	527 000	320 000		527 000	320 000	
			Balances b/d	476 000	286 000	

[11]

If Mhairi's Goodwill is combined and a net figure of $34 000 shown on credit side, award 3 marks.

(c) Statement of Financial Position (Balance Sheet) at 1 May 2012

	$	$		
Non-current assets				
Equipment		232 000		
Fixtures		160 000		
Vehicles		94 000		
		486 000	**2**	
Current Assets				
Inventory (86 + 26)	112 000		**2**	
Trade receivables	16 000			
Bank (200 – 14)	186 000		**2**	
	314 000			
Current liabilities				
Trade payables	38 000			
Net current assets		276 000		
Net assets		762 000		
Capital				
Mhairi		476 000	**1OF**	
Aiden		286 000	**1OF**	
		762 000		[8]

(d) The advantages are:

- More capital is available;
- Different partners may have different skills that are beneficial to the business;
- The management of the business can be shared;
  - The business is more efficient
  - There are more ideas
  - The responsibility is shared, so less stress
- Losses can be shared;
- Liquidity is improved.

Two marks per valid point to maximum of 8. [8]

[Total: 30]

3 (a)

Cost	Basis		Machining		Assembly		Maintenance	Canteen
Indirect wages	Number of employees	**1**	742 000		1 102 400		169 600	106 000
Repairs and maintenance	Direct machine hours	**1**	369 000		41 000			
Rent and rates	Floor area	**1**	23 850		21 200		5 300	2 650
Machinery insurance	Machine cost	**1**	15 600		8 400			
Premises insurance	Floor area		12 600	**1**	11 200		2 800	1 400
Electricity – power	Power usage (%)		26 400	**1**	16 800		2 400	2 400
Depreciation of machinery	Machine cost		9 100	**1**	4 900			
Consumables	Consumables $		9 550	**1**	9 800		550	1 250
Reapportion	Canteen		39 795	**1**	68 220	**1**	5 685	(113 700)
Maintenance			149 068	**1**	37 267	**1**	(186 335)	
			1 396 963		1 321 187			

[12]

(b) Overhead rate

	Machining		Assembly	
	1 396 963 / 202 500	**1**	1 321 187 / 314 500	**1**
	$6.89858 DMH	**1OF**	$4.20091 DLH	**1OF**

[4]

Accept correct to 2 decimal places $6.90 and $4.20.

(c)

	Machining		Assembly	
Actual overhead	1 410 000		1 312 000	
Absorbed overhead	1 345 500		1 335 600	
	64 500	**1OF**	23 600	**1OF**
	under absorbed	**1OF**	over absorbed	**1OF**

[4]

Accept approximations depending on use of decimal places in answers to **(b)**, around 64 777 and 23 889

(d) The machine department has not worked the planned hours. **1OF**
Its actual overheads were greater than the budgeted therefore increasing overall costs. **1OF**

The assembly department has worked more than the planned hours. **1OF**
Its actual overheads were less than the budgeted therefore saving on overall costs. **1OF**

Maximum of 2 marks for each department. [4]

(e) Use of estimated data which could be inaccurate, leading to under/over absorption.

Over–absorption, too much overhead charged to production, overpriced and uncompetitive, fall in demand and subsequent loss of revenue/reduction in profit.

Under–absorption, insufficient overhead charged to production, lower price to customer, costs not covered and subsequent reduction in profits.

(2 × 3 mark) [6]

[Total: 30]