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.

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

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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)** | |
| | | <u>20</u> |
| 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]**

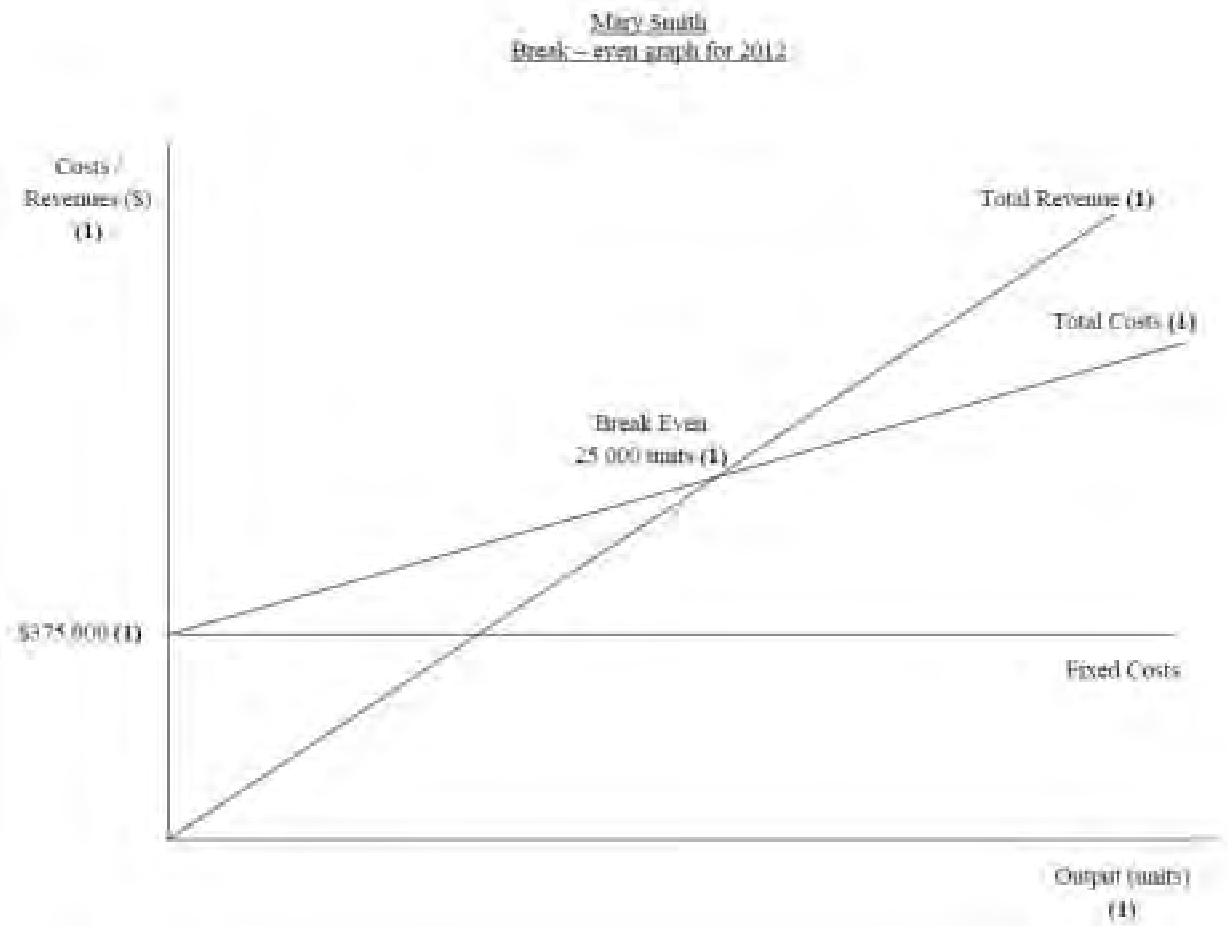
**(b)** Depreciation
Admin costs — Rent
Insurance — Advertising/marketing
Rates — Indirect wages
Loan interest
**Or other suitable alternative.**

**(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]**