CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the October/November 2012 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the October/November 2012 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 **(a)** Manufacturing account for the year ended 31 March 2012

	$	$		$	
Raw materials					
Opening inventory		53 000			
Purchases of raw materials		800 000	**(1)**		
Carriage inwards		6 000	**(1)**		
Returns outwards		(18 500)	**(1)**		
		840 500			
Less closing inventory		47 000	**(1)**		
Cost of raw materials consumed				793 500	
Direct wages				450 000	**(1)**
PRIME COST				1 243 500	**(1)**
Add Factory Overheads					
Indirect wages		68 000	**(1)**		
Rates and insurance		31 160	**(1)**		
General factory overheads					
Depreciation premises		93 000	**(1)**		
Depreciation machinery		24 000	**(1)**		
		27 000	**(1)**		
				243 160	
				1 486 660	
Add: Opening work in progress				80 000	**(1)**
				1 566 660	
Less: Closing work in progress				92 000	**(1)**
Manufacturing cost of goods completed				1 474 660	

[13]

(b) Income Statement for the year ended 31 March 2012

Revenue			2 500 00	**(1)**	
Revenue returns			22 000	**(1)**	
					2 478 000
Opening inventory	76 000				
Cost of goods produced	1 474 660	**(1) of**			
			1 550 660		
Less Closing inventory			68 000	**(1)**	
Cost of sales					1 482 660
Gross profit					995 340
Expenses					
Rates and insurance			7 790	**(1)**	
Loan interest			10 000	**(1)**	
Office salaries			80 000	**(1)**	
Depreciation premises			6 000	**(1)**	
Provision for doubtful debts			350	**(2)**	
General office expenses			100 000	**(1)**	
					204 140
Profit for the year					791 200

[11]

(c) Assets should not be overstated **(1)**
Liabilities should be understated **(1)**
Revenue should not be bought into the financial statements until realised **(1)**

(Up to 3 points for the definition)

Inventory **(1)**
Provision for doubtful debts **(1)**
Depreciation **(1)**

(Up to 3 points for examples)

[6]

[Total: 30]

2 (a)

Capital Account

	Maurice $	Ravel $	Bach $			Maurice $	Ravel $	Bach $	
Goodwill	16 000	16 000	8 000	(1)	Balance b/d	120 000	80 000		(1)
					Bank			39 000	(1)
					Motor van			8 000	(1)
Balance c/d	120 000	84 000	39 000		Goodwill	20 000	20 000		(1)
	140 000	100 000	47 000			140 000	100 000	47 000	

[5]

(b) (i)

Maurice Ravel and Bach
Income Statement and Appropriation Account for the year ended 30 June 2012

	$		$		$
Revenue			2 600 000	(1)	
Revenue returns			200 000	(1)	
					2 400 000
Opening inventory	120 000	(1)			
Ordinary goods purchased	1 625 000	(1)			
			1 745 000		
Less Closing inventory			145 000	(1)	
Cost of sales					1 600 000
Gross Profit					800 000
Expenses			480 000	(1)	
					480 000
Profit for the year					320 000

[6]

(ii)

Add Interest on drawings					
Maurice			4 800	(1)	
Ravel			6 000		
Bach			1 750	(1)	12 550
					332 550
Less Salary: Ravel			10 000	(1)	
Less Interest on capital:					
Maurice	12 400	(1)			
Ravel	8 400	(1)			
Bach	3 900	(1)	24 700		34 700
					297 850
Balance of profits shared:					
Maurice			119 140	(1)	
Ravel			119 140	(1)	
Bach			59 570	(1)	297 850

[9]

(c) Current Account

	Maurice $	Ravel $	Bach $			Maurice $	Ravel $	Bach $	
Balance b/d		12 000		**(1)**	Balance b/d	17 000			**(1)**
Drawings	96 000	120 000	35 000	**(1)**	Profit	119 140	119 140	59 570	**(1)**
Interest on drawings	4 800	6 000	1 750	**(1)**	Salary		10 000		**(1)**
					Interest on capital	12 400	8 400	3 900	**(1)**
Balance c/d	47 740		26 720		Balance c/d		460		
	148 540	138 000	63 470			148 540	138 000	63 470	

[7]

(d) Liability for the debts of the business **(1)** is limited **(1)** to the amount of capital invested by each partner **(1)** [3]

[Total: 30]

3 (a)

Per unit	Alpha		Beta		Gamma	
	$		$		$	
Selling price	72		74		58	
Variable costs	52		52		41	
Contribution	21	**(1)**	22	**(1)**	17	**(1)**

[3]

(b)

		$	
Alpha	9 000 × $21	189 000	**(1)**
Beta	12 000 × $22	264 000	**(1)**
Gamma	7 000 × $17	119 000	**(1)**
		572 000	
Fixed costs		250 000	**(1)**
Monthly profit		322 000	**(1)**

[5]

(c)

	Alpha		Beta		Gamma	
Contribution per limiting factor	$\frac{21}{18}$ = 1.17		$\frac{22}{25}$ = 0.88		$\frac{17}{16}$ = 1.06	
Priority	1	**(1)**	3	**(1)**	2	**(1)**

Material available in April = 574 000 × 80% = 495 200 utilised as

	9000 × 18 = 162 000	**(1)**	7408 × 25 = 185 200	**(1)**	7000 × 16 = 112 000	**(1)**

Converted into contribution for April

	9000 × 21 = $189 000	**(1)**	7408 × $22 = $162 976	**(1)**	7000 × $17 = 119 000	**(1)**

	$	
Total contribution for April 189 000 + 162 976 + 119 000	470 976	
Fixed costs	250 000	**(1)**
Profit for April	220 976	**(1)**
Total profit for 3 months = (322 000 × 2) + 220 976	864 976	**(1)**

[12]

(d)

	$	
Selling price	50	**(1)**
Variable costs	41	**(1)**
Contribution per unit	9	
Quantity	3 000	**(1)**
Total contribution	27 000	
Fixed costs	15 000	**(1)**
Profit	12 000	

[4]

(e) Customers paying full price will be annoyed to discover others paying less.
Possible business will be taken elsewhere.

Reaction of competitors needs consideration – price wars.

Will acceptance of the offer take up capacity that could be better used for future full price business?

An over reliance on special orders is not a long term solution and the company should put priority on achieving full price orders.

3 x 2 marks [6]

[Total: 30]