UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2008 question paper

9706 ACCOUNTING

9706/02 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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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) Trading and Profit and Loss account for the year ended 30 April 2008

		$	$	$	
Sales				243 000	
Less returns				2 040	
				240 960	
Less cost of sales					
Stock at 1 May 2007			13 500		
Purchases		184 000			
Less returns		1 980			**(1)**
		182 020			
Add carriage in		350	182 370		**(1)**
			195 870		
Less stock at 30 April 2008			15 100	180 770	
Gross profit				60 190	
Discount received				1 300	
Rent receivable	(2420 + 220)			2 640	**(1)**
Doubtful debts provision	(500 – 3% × (9000-200))			236	**(1)**
				64 366	
Bad debts written off			200		
Carriage out			800		
Discount allowed			1 800		
Electricity	(2100 – 40)		2 060		**(1)**
General expenses	(9340 + 50)		9 390		**(1)**
Depreciation on machinery	((52000 – 15600) × 40%)		14 560		**(1)**
Interest due on loan	((11% × 60000)/2)		3 300	32 110	**(1)**
Net profit				32 256	

[8]

(b) Balance Sheet at 30 April 2008

	$	$	$	$	
Fixed Assets				Net Book Value	
Premises				250 000	
Machinery				21 840	**(1)of if < 36 400**
				271 840	
Current Assets					
Stock		15 100			
Debtors	8 800				**must be 8800 and**
Less DD Provision	264	8 536			**(1)of if DDP < 500**
Cash		990			
Prepayment		40			**(1)**
Rent receivable		220	24 886		**(1)**
Amounts due within one year					
Creditors		11 460			
Bank		8 260			**(1)**
Accrual		50			**(1)**
Interest due		3 300	23 070		**(1)**
Net current assets				1 816	**(1)of**
				273 656	
Amount due over one year					
Long-term loan (11%)				60 000	
				213 656	
Proprietor's interest					
Capital at 1 May 2007				200 000	**(1)of**
Add net profit				32 256	**(1)**
				232 256	
less drawings				18 600	**(1)**
				213 656	

[11]

(c) **(i)** Current ratio = 24886/23070 1.08:1 **(1)of**

(ii) Liquid ratio = 9786/23070 0.42:1 **(1)of**

(iii) Rate of stock turnover = 180770/14300 12.64 times **(1)of**

(iv) Gross profit as a percentage of sales 28.87 days 24.98% **(1)of**

(v) Net profit as a percentage of sales 13.39% **(1)of**

(iv) and **(v)** denominator must be **net** sales i.e. **not** 243 000
Need suffixes.
If correct working shown disregard request for decimal places

[5]

(d) (i) Ratios are used to compare a firm's performance with another year, or with another business of the same type. [2]

(ii) Interested parties might be:

Bank manager	Directors	Competitors
Customs and excise	Creditors	Investors/Shareholders
Employees	Debtors	NOT Stakeholders
The media (Newspapers, TV etc)		

Allow ONE group only of members of the firm

Etc. One mark each to a maximum of [4]

[Total: 30]

2A

	$ –	$ +	
Profit and loss balance	100 000		
Capital contribution	80 000		**(1)**
Sales returns	no effect		
Depreciation (240 000 + 75 000) × 40%	126 000		**(2)**
Interest accrued	10 000		**(1)**
Drawings		50 000	**(1)**
Stock	9 000		**(1)**
Goods for own use		11 000	**(1)**
Loan		20 000	**(1)**
Equipment repairs	25 000		**(1)**
Stock purchase	22 000		**(1)**
	372 000	81 000	
	–81 000		
	291 000		**(1) + (1)of**

[12]

2 marks for $291 000, 1 of provided EITHER (a) no entry for sales returns or (b) entry for sales/purchases returns in BOTH columns

B (a) Sales Ledger Control Account

Balance b/d	340 600		Balance b/d	1 960	
Credit sales	295 000	**(1)**	Sales returns	6 480	**(1)**
Bank	3600		Bank	238 600	**(1)**
Discount allowed	200	**(2)**	Discount allowed	3 500	**(1)**
			Contra	5 000	**(1)**
			Bad debt	2 300	**(1)**
Balance c/d	8 340	**(1)**	Balance c/d	389 900	**(1)of** (no aliens)
	647 740			647 740	
Balance b/d	389 900	**(1)**	Balance b/d	8 340	**(1)**

If Bank shown net 235 000 on credit side award **(1)** mark
If Discount allowed shown net 3300 on credit side award **(3)** marks
Do **not** award full marks for correct balances b/d as Bank may be shown as 3800 on debit side. [12]

(b) Overpayment
Payment in advance
Credit note issued
Deposit received
Etc. 1 mark each to maximum [3]

(c) Less chance of fraud
Less chance of errors
Fraud or errors easier to find
Checking easier
Total debtors and creditors figures available
Etc. 1 mark each to maximum [3]

[Total: 30]

3 (a)

	$		$		
Unit selling price			1 100	**(1)**	
Less					
Direct materials	128	**(1)**			
Direct wages	625	**(1)**			
Variable production overhead	40	**(1)**			
Variable sales overhead	30	**(1)**	823		
Unit contribution			277		[5]

OR

Sales			8 800 000	**(1)**	
Less					
Direct materials	1 024 000	**(1)**			
Direct wages	5 000 000	**(1)**			
Variable production overhead	320 000	**(1)**			
Variable sales overhead	240 000	**(1)**	6 584 000		
Total contribution			2 216 000	/ 8 000	
Unit contribution			277		[5]

OR

Total contribution = Profit + Fixed costs
1 656 000 + 640/2 + 480/2 = 2 216 000 divided by 8000 for unit contribution = 277
1 **2** **2** [5]
The answer 307 should be awarded **(4)** marks.

(b)

	BUY IN		LEASE		EXTRA SHIFT		
	$		$		$		
Sales	2 200 000	**(1)**	2 200 000	**(1)**	2 200 000	**(1)**	
Less							
Buy in, lease, training	1 840 000	**(1)**	260 000	**(1)**	50 000	**(1)**	
Direct materials			256 000	**(1)**	256 000	**(1)**	
Direct wages			1 250 000	**(1)**	1 437 500	**(2)**	
Variable production overhead			80 000	**(1)**	80 000	**(1)**	
Variable sales overhead	60 000	**(1)**	60 000	**(1)**	60 000	**(1)**	
Total variable costs	1 900 000	**(1)**	1 906 000	**(1)**	1 883 500	**(1)**	
Extra profit	300 000	**(1)of**	294 000	**(1)of**	316 500	**(1)of**	[22]
Alternative (wrong)	360 000	**(4)**	224 000	**(7)**			
answers	2 016 000	**(3)**					

The feasibility study is treated as a sunk cost - lose **of** mark for extra profit on leasing if feasibility cost included.

Candidates may use a mix of methods between options, e.g. use the above for option 1 and the method below for options 2 and 3. There is no problem here.

OR candidates may calculate the total rather than the additional profit and this is possibly most likely.

Sales	11 000 000	**(1)**	11 000 000	**(1)**	11 000 000	**(1)**	
Direct materials	1 024 000		1 280 000	**(1)**	1 280 000	**(1)**	
Direct labour	5 000 000		6 250 000	**(1)**	6 437 500	**(2)**	
Variable production overhead	320 000		400 000	**(1)**	400 000	**(1)**	
Variable sales overhead	300 000	**(1)**	300 000	**(1)**	300 000	**(1)**	
Fixed production overhead	320 000		320 000		320 000		
Fixed sales overhead	240 000		240 000		240 000		
Buy in, Lease, Training	1 840 000	**(1)**	260 000	**(1)**	50 000	**(1)**	
Total costs	9 044 000		9 050 000		9 027 500		
Profit	1 956 000	**(1)of**	1 950 000	**(1)of**	1 972 500	**(1)of**	
Original profit	1 656 000		1 656 000		1 656 000		
Additional profit	300 000	**(1)of**	294 000	**(1)of**	316 500	**(1)of**	[22]

OR possibly a unit approach

Selling price	1100	**(1)**	1100	**(1)**	1100.00	**(1)**	
DM			128	**(1)**	128.00	**(1)**	
DL			625	**(1)**	718.75	**(2)**	
VPO			40	**(1)**	40.00	**(1)**	
VSO	30	**(1)**	30	**(1)**	30.00	**(1)**	
Buy in, Lease, Training	920	**(1)**	130	**(1)**	25.00	**(1)**	
Total costs	950		953		941.75		
Unit profit	150	**(1)of**	147	**(1)of**	158.25	**(1)of**	
× 2000 = Added profit	300 000	**(1)of**	294 000	**(1)of**	316 500	**(1)of**	[22]

(c) Introduce an evening shift (or whichever is most cost-effective) **(1)of**
Advantage - no need to spend so much money on training in future years. **(1)**
Disadvantage - work involved in setting this up. **(1)** [3]
Or any other reasonable advantage/disadvantage.
If candidate suggests answer not totally based on cost/profit, accept provided good reason given – e.g. (Advantage) buying in is simplest solution but (Disadvantage) can't guarantee quality.

The own figure mark cannot be given unless all three options are attempted.

[Total: 30]

There are, unfortunately, other possibilities for the three options which cannot be ignored, though they are unlikely to appear.

Candidate may use the contribution figure calculated in the 3rd version of **(a)**.

	$		$		
Option 1					
8000 × 277 (from **(a)**)			2 216 000	**(1)of**	
2000 × 1100			<u>2 200 000</u>	**(1)**	
			4 416 000		
Buy in	1 840 000	**(1)**			
Sales o/h	60 000	**(1)**			
Original profit	1 656 000				
Fixed costs	<u>560 000</u>		<u>4 116 000</u>		
			300 000	**(1)of**	[5]
Option 2					
Sales **(1)** **(1)** **(1)**			2 200 000	**(1)**	
less <u>(7144 – 560) × 2</u>					
8 **(1)**	1 646 000				
Lease	<u>260 000</u>	**(1)**	<u>1 906 000</u>	**(1)**	
			294 000	**(1)**	[8]
OR					
10 000 × 277			2 770 000	**(5)**	
less					
Lease	260 000	**(1)**			
Fixed costs	560 000				
Original profit	<u>1 656 000</u>		<u>2 476 000</u>	**(1)**	
			294 000	**(1)**	[8]

The figure $2 770 000 recognises the increase in sales, materials, variable production costs and sales overheads.

Option 3

Sales			2 200 000	**(1)**	
less **(1)** **(1)** **(1)** $\frac{(7144 - 560) \times 2}{8}$ **(1)**	1 646 000				
Training	50 000	**(1)**			
Labour	187 500	**(1)**	1 883 500	**(1)**	
			316 500	**(1)**	[9]

OR

10 000 × 277			2 770 000	**(5)**	
less					
Training	50 000	**(1)**			
Labour	187 500	**(1)**			
Fixed costs	560 000				
Original profit	1 656 000		2 453 500	**(1)**	
			316 500	**(1)**	[9]

Further possibilities:

Option 1

Sales	2 200 000	**(1)**	
less purchases	1 840 000	**(1) + (1)**	
	360 000	**(1)**	[4]

Only omission is variable costs so award an extra 1 for assumed sub-total

Option 2

Contribution	2 770 000	**(5)**	
less costs (560 000 + 260 000)	820 000	**(1)**	
Profit	1 950 000	**(1)**	
Original profit	1 656 000		
	294 000	**(1)**	[8]

Option 3

Contribution	2 770 000	**(5)**	
less Variable cost	1 437 500		
New contribution	1 332 500		
less fixed costs	560 000		
	772 500		
Training cost	50 000	**(1)**	
New Profit	722 500		
Additional profit (1 656 000 - 722 500)	933 500	**(1)of**	[7]