CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 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.

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CAMBRIDGE
International Examinations

1 (a)

Cash Account

Dr		$		$	Cr
Bal b/d	**(1)**	3270	Van rental	2400	}
			Drivers wages	4748	}
Receipts customers	**(1OF)**	35680	Rent for garage	1600	} **(1) for all 3**
Van disposal	**(1)**	1300	Cash stolen	430	**(1)**
			Sundry expenses	2972	
			Drawings	11450	
			Fuel expenses	14301	**(1)**
			Bal c/d	2349	
		40250		40250	
Bal b/d	**(1OF)**	2349			

[7]

(b) Calculations for revenue figure for the year ended 30 June 2014

	$	
Cash received from Trade debtors	35680	**(1)**
Add debtors at 30 June 2012	2863	**(1)**
Add bad debts written-off	1648	**(1)**
	40191	
Less debtors at 1st July 2011	3766	**(1)**
Sales	36425	**(1) (OF)**

[5]

(c)

Asif Income Statement
Year ended 30 June 2014

	$	$	
Sales (from part b)		36425	**(1OF)**
Less expenses			
Cash stolen	430		**(1)**
Van rental	2400		
Wages (4748(1) + 200 (1))	4948		**(2)**
Rental of garage (1600(1) – 400(1))	1200		**(2)**
Sundry expenses	2972		
Loss on disposal (6200(1) – 4650(1) – 1300(1))	250		**(3)**
Fuel expenses	14301		**(1)**
Bad debts	1648		**(1)**
		28149	
Profit for the year (must be labelled)		8276	**(1OF)**

[12]

(d) Improved cash flow **(1 + 1 for development)**
Reduction in bad debts **(1 + 1 for development)** **[4]**

(e) Net profit margin **(1)** **[2]**
Return on capital employed **(1)**
Expenses: revenue **(1)**
Max 2

[Total: 30]

2 (a)

Lance
Statement of financial position at 30 November 2014

	$000	$000	$000
Non-current assets at cost			500 **(1)**
Accumulated depreciation			(200)
			300 **(1)**
Current assets			
Inventory		80	
Trade receivables		50	
Cash		10	
		140 **(1)**	
Current liabilities			
Trade payables	35		
Other payables	20		
Bank overdraft	25	80 **(1)**	60 **(1OF)**
Non-current liabilities			
Long term loan			(40) **(1)**
			320
Financed by:			
Opening capital			310
Add: net profit			30 **(1)**
			340
Less: drawings			(20) **(1)**
			320

Alternative presentation (IAS format) accepted

Lance
Statement of financial position at 30 November 2014

	$000	$000
Non-current assets	500 **(1)**	
Accumulated depreciation	200	
		300 **(1)**
Current assets		
Inventory	80	
Trade receivables	50	
Cash	10	140 **(1)**
Total assets		440
Capital account		
Opening capital	310	
Add: net profit	30 **(1)**	
	340	
Less: drawings	20 **(1)**	320
Non-current liabilities		
Long-term loan		40 **(1)**
Current liabilities		
Trade payables	35	
Other payables	20	
Bank overdraft	25	80 **(1)**
Total capital and liabilities		440 **(1)**

[8]

(b)

Ratio	Formula	Calculation
Current	Current assets / current liabilities **(1)**	140 / 80 = 1.75:1 **(1OF)**
Liquid (acid test)	(Current assets – inventory) / Current liabilities **(1)**	(140 – 80) / 80 = 0.75:1 **(1OF)**

[4]

(c) Current ratio improved in 2013 **(1)** but became worse in 2014 **(1)**. This should be a concern to Lance as it may indicate worsening liquidity **(1)**, especially with the bank overdraft **(1)**.

This is shown by the liquid (acid test) ratio which has worsened each year **(1)**. Lance has a large amount of inventory which indicates cash may be tied up **(1)**. Lance may have difficulty paying the interest on the loan, overdraft. **(1)** and suppliers **(1)**. **[8]**

(d) Cash budget for the month of December

Receipts	$	
Loan	25 000	**(1)**
Cash sales (75 000 (1) / 3 (1))	22 500	**(2)**
Received from trade receivables	50 000	**(1)**
	97 500	
Payments		
Other expenses	12 500	
Cash purchases	18 000	**(1)**
Payments to trade payables	35 000	**(2)**
Loan interest	125	**(1)**
	65 625	
Net cash in/outflow	31 875	
Opening balance	(15 000)	**(1)**
Closing balance	16 875	**(1)OF**

[10]

[Total: 30]

3 **(a)** Contribution = £17.00 – ($4.50 + $6.00 + $2.50) = $4.00
Fixed costs = $324 000 / 12 = $27 000 per month.
Breakeven = $27 000 **(1)** / $4.00 **(1)** = 6750 units **[2]**

(b) Absorption costing working:
Unit cost = $4.50 + $6.00 + $2.50 + $(27 000 / 10 000) = $15.70

	Jan		Feb	
	$		$	
Sales (@ $17)	119 000		221 000	
COGS (@ $15.70)	109 900	**(1)**	204 100	**(1)**
Profit	9 100	**(1)**	16 900	**(1)**

[4]

(c) Marginal costing

	Jan		Feb	
	$		$	
Sales	119 000		221 000	
Variable costs (@ $13)	91 000		169 000	
Contribution	28 000	**(1OF)**	52 000	**(1OF)**
Fixed costs	27 000		27 000	
Profit	1 000	**(1OF)**	25 000	**(2OF)**

[4]

(d) Reconciliation

	Jan		Feb		
	$		$		
Absorption costing profit	9100		16900		
(Inc) / Dec in inventories					
(3000 @ $2.70)	(8100)	**(1OF)**			
3000 @ $2.70			8100	**(1OF)**	
Marginal costing profit	1000	**(1OF)**	25000	**(1OF)**	**[4]**

(e) Absorption costing will produce a different profit figure to marginal costing whenever opening and closing inventory differ. **(1)**

Absorption costing values inventory at total production cost including a portion of fixed costs. **(1)**

Marginal costing values inventory at variable cost only, treating fixed costs as period costs. **(1)**

When closing inventory is higher than opening inventory, absorption costing will produce the higher profit. **(1)** When closing inventory is lower than opening inventory, marginal costing will produce the higher profit. **(1) (Max 4)** **[4]**

(f) Working:
Fixed cost = ($324000 + $60000) / 12 = $32000 pm / 11000 units = $2.91 **(1OF)**
Total unit cost = $2.91 + $13.00 **(1)** = $15.91 **(1OF)**

Sales ($17 × 7700)	130900	**(1)**	
Cost of sales ($15.91 **(3)** × 7700)	122507		
Profit	8393	**(1OF)**	**[5]**

(g) Situations where marginal costing is useful:
1 Make or buy decisions. **(1)**
2 Product mix in limiting factor decisions. **(1)**
3 Whether to discontinue a product. **(1)**
4 Acceptance of special orders. **(1)**
Max 3 marks **[3]**

(h) Marginal costing should only be used for short term decision making **(1)**
However, it is necessary to split all costs into fixed and variable **(1)** which may be difficult **(1)**
Difficult to use if more than one product is sold **(1)** as it is difficult to split fixed overheads over several products **(1)**
Max 4 marks **[4]**

[Total: 30]