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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1 (a)

Dr		Cash Account		Cr	
		$		$	
Bal b/d	**(1)**	3 270	Van rental	2 400	}
			Drivers wages	4 748	}
Receipts customers	**(1OF)**	35 680	Rent for garage	1 600	} **(1) for all 3**
Van disposal	**(1)**	1 300	Cash stolen	430	**(1)**
			Sundry expenses	2 972	
			Drawings	11 450	
			Fuel expenses	14 301	**(1)**
			Bal c/d	2 349	
		40 250		40 250	
Bal b/d	**(1OF)**	2 349			

[7]

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

	$	
Cash received from Trade debtors	35 680	**(1)**
Add debtors at 30 June 2012	2 863	**(1)**
Add bad debts written-off	1 648	**(1)**
	40 191	
Less debtors at 1st July 2011	3 766	**(1)**
Sales	36 425	**(1) (OF)**

[5]

(c)

Asif Income Statement
Year ended 30 June 2014

	$	$	
Sales (from part b)		36 425	**(1OF)**
Less expenses			
Cash stolen	430		**(1)**
Van rental	2 400		
Wages (4 748(1) + 200 (1))	4 948		**(2)**
Rental of garage (1 600(1) – 400(1))	1 200		**(2)**
Sundry expenses	2 972		
Loss on disposal (6 200(1) – 4 650(1) – 1 300(1))	250		**(3)**
Fuel expenses	14 301		**(1)**
Bad debts	1 648		**(1)**
		28 149	
Profit for the year (must be labelled)		8 276	**(1OF)**

[12]

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(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

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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]

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(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]

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(d) Reconciliation

	Jan $	Feb $
Absorption costing profit	9 100	16 900
(Inc) / Dec in inventories		
(3 000 @ $2.70)	(8 100) **(1OF)**	
3 000 @ $2.70		8 100 **(1OF)**
Marginal costing profit	1 000 **(1OF)**	25 000 **(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 = ($324 000 + $60 000) / 12 = $32 000 pm / 11 000 units = $2.91 **(1OF)**
Total unit cost = $2.91 + $13.00 **(1)** = $15.91 **(1OF)**

Sales ($17 × 7 700)	130 900	**(1)**
Cost of sales ($15.91 **(3)** × 7 700)	122 507	
Profit	8 393	**(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]