

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2012 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) **Manufacturing Account for the year ended 30 April 2012**

| | | | |
|---------------------------------|---------------|----------------|------|
| Raw Materials | \$ | \$ | |
| Inventory (1.05.11) | | 20 000 | 1 |
| Add Purchases of raw materials | 238 000 | | 1 |
| Less Purchase returns | <u>10 000</u> | <u>228 000</u> | |
| | | 248 000 | |
| Less Inventory (30.04.12) | | <u>56 000</u> | 1 |
| Cost of raw materials consumed | | 192 000 | 1 |
| Direct costs | | | |
| Manufacturing wages | | <u>265 000</u> | 1 |
| Prime cost | | 457 000 | 1 |
| Factory Overhead | | | |
| Indirect factory wages (46 + 5) | 51 000 | | 2 |
| Insurance (14 – 7) × 70% | 4 900 | | 2 |
| General expenses | 6 000 | | 1 |
| Factory supervision salaries | 15 000 | | |
| Heat and light 6 000 × 80% | 4 800 | | 2 |
| Depreciation (260 – 60) × 20% | <u>40 000</u> | <u>121 700</u> | 2 |
| | | 578 700 | |
| Work-in-progress | | | |
| Add inventory (1.05.11) | 52 000 | | 1 |
| Less inventory (30.4.12) | 58 000 | <u>(6 000)</u> | 1 |
| Factory cost of production | 10F | 572 700 | [19] |

If Depreciation on Factory Premises, \$120 000 is included, ignore it. Factory cost of production will now be \$692 700 if all else is correct.

(b) **Income Statement for the year ended 30 April 2012**

| | | | |
|---|----------------|----------------|---------|
| Sales | | 799 000 | |
| Less Cost of Sales | | | |
| Inventory of finished goods (1.05.11) | 78 000 | | |
| Transfer value of finished goods | <u>572 700</u> | | 10F |
| | 650 700 | | |
| Less inventory of finished goods (30.04.12) | <u>72 000</u> | <u>578 700</u> | |
| Gross profit | | 220 300 | 10F |
| Decrease in provision DD | | <u>800</u> | 1 |
| | | 221 100 | |
| Insurance | 2 100 | | 1 |
| Heat and light | 1 200 | | 1 |
| Admin expenses | 33 000 | | 1 |
| Office salaries | 55 000 | | |
| Depreciation | 20 800 | | 1 |
| | | 112 100 | |
| Net profit | | 109 000 | 10F [8] |

| | | | |
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(c) Examples

- 1 Value of opening and closing inventory at lower of cost or net realisable value.
- 2 Depreciation of non-current assets charges the estimated amount of the asset consumed against profit.
- 3 Any other valid point, provision for depreciation, accruals/prepayments.

One mark per valid point.**Not** provision for unrealised profit – must apply to Bart's accounts.

[3]

[Total: 30]

| | |
|--------------------|------------------|
| 2 (a) Sales | Net profit |
| 200 000 | 12 000 |
| 400 000 | 32 000 |
| 500 000 | 40 000 |
| 860 000 | 86 000 |
| Net profit | 170 000 1 |

| | |
|-----------|-----------------|
| Average | 42 500 1 |
| Two years | 85 000 1 |

[3]

(b) Capital accounts

| | M \$ | A \$ | | M \$ | A \$ |
|-------------|----------------|----------------|-------------|----------------|------------------|
| | 2 | 2 | | 1 | |
| Goodwill | 51 000 | 34 000 | Balance b/d | 442 000 | |
| | 10F | 10F | | 1 | |
| Balance c/d | 476 000 | 286 000 | Goodwill | 85 000 | |
| | | | Bank | | 200 000 1 |
| | | | Vehicles | | 94 000 1 |
| | | | Inventory | | 26 000 1 |
| | <u>527 000</u> | <u>320 000</u> | | <u>527 000</u> | <u>320 000</u> |

Balances b/d 476 000 286 000 [11]

If Mhairi's Goodwill is combined and a net figure of \$34 000 shown on credit side, award 3 marks.

| | | | |
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(c) Statement of Financial Position (Balance Sheet) at 1 May 2012

| | \$ | \$ | |
|---------------------|----------------|----------------|------------|
| Non-current assets | | | |
| Equipment | | 232 000 | |
| Fixtures | | 160 000 | |
| Vehicles | | <u>94 000</u> | |
| | | 486 000 | 2 |
| Current Assets | | | |
| Inventory (86 + 26) | 112 000 | | 2 |
| Trade receivables | 16 000 | | |
| Bank (200 – 14) | <u>186 000</u> | | 2 |
| | 314 000 | | |
| Current liabilities | | | |
| Trade payables | <u>38 000</u> | | |
| Net current assets | | 276 000 | |
| Net assets | | <u>762 000</u> | |
| Capital | | | |
| Mhairi | | 476 000 | 10F |
| Aiden | | <u>286 000</u> | 10F |
| | | 762 000 | |

[8]

(d) The advantages are:

- More capital is available;
- Different partners may have different skills that are beneficial to the business;
- The management of the business can be shared;
 - The business is more efficient
 - There are more ideas
 - The responsibility is shared, so less stress
- Losses can be shared;
- Liquidity is improved.

Two marks per valid point to maximum of 8.

[8]

[Total: 30]

| | | | |
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| 3 (a) Cost | Basis | | Machining | Assembly | Maintenance | Canteen |
|---------------------------|----------------------|---|------------------|------------------|------------------|-----------|
| Indirect wages | Number of employees | 1 | 742 000 | 1 102 400 | 169 600 | 106 000 |
| Repairs and maintenance | Direct machine hours | 1 | 369 000 | 41 000 | | |
| Rent and rates | Floor area | 1 | 23 850 | 21 200 | 5 300 | 2 650 |
| Machinery insurance | Machine cost | 1 | 15 600 | 8 400 | | |
| Premises insurance | Floor area | | 12 600 | 11 200 | 2 800 | 1 400 |
| Electricity – power | Power usage (%) | | 26 400 | 16 800 | 2 400 | 2 400 |
| Depreciation of machinery | Machine cost | | 9 100 | 4 900 | | |
| Consumables | Consumables \$ | | 9 550 | 9 800 | 550 | 1 250 |
| Reapportion | Canteen | | 39 795 | 68 220 | 5 685 | (113 700) |
| Maintenance | | | <u>149 068</u> | <u>37 267</u> | <u>(186 335)</u> | |
| | | | <u>1 396 963</u> | <u>1 321 187</u> | | |

[12]

| | | | | |
|-------------------|--------------------------------|------------|--------------------------------|------------|
| (b) Overhead rate | $\frac{1\,396\,963}{202\,500}$ | 1 | $\frac{1\,321\,187}{314\,500}$ | 1 |
| | \$6.89858 | 10F | \$4.20091 | 10F |
| | DMH | | DLH | |

[4]

Accept correct to 2 decimal places \$6.90 and \$4.20.

| | | | |
|-------------------|--|---------------------------|--------------------------|
| (c) | | Machining | Assembly |
| Actual overhead | | 1 410 000 | 1 312 000 |
| Absorbed overhead | | 1 345 500 | 1 335 600 |
| | | 64 500 10F | 23 600 10F |
| | | under absorbed 10F | over absorbed 10F |

[4]

Accept approximations depending on use of decimal places in answers to (b), around 64 777 and 23 889

- (d) The machine department has not worked the planned hours. **10F**
 Its actual overheads were greater than the budgeted therefore increasing overall costs. **10F**

The assembly department has worked more than the planned hours. **10F**
 Its actual overheads were less than the budgeted therefore saving on overall costs. **10F**

Maximum of 2 marks for each department.

[4]

| | | | |
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- (e) Use of estimated data which could be inaccurate, leading to under/over absorption.

Over-absorption, too much overhead charged to production, overpriced and uncompetitive, fall in demand and subsequent loss of revenue/reduction in profit.

Under-absorption, insufficient overhead charged to production, lower price to customer, costs not covered and subsequent reduction in profits.

(2 × 3 mark)

[6]

[Total: 30]