

CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2013 series

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 should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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- 1 (a) X manufactures computers, Y is a food wholesaler (1)

1 mark for ratio or suitable figure and 1 mark for development.

For example:

Gross profit/net profit ratio (1) – computers have a much higher mark-up than food (1)

Long term loan (1) – higher capital investment for a computer manufacturer (1)

Trade receivables (1) – higher for a computer manufacturer (1)

ROCE (1) – lower ROCE for a computer manufacturer (1) [3]

- (b) Income Statements for businesses X and Y

	Business X \$	Business Y \$	
Revenue	540 000 (2cf 1of)	(1 500 000 (2cf 1 of)	
Less Cost of sales	<u>248 400</u>	<u>1 050 000</u>	
Gross profit	291 600	450 000	
Expenses	<u>194 400</u>	<u>360 000</u>	
Profit for year	<u>97 200</u> (2cf 1 of)	<u>90 000</u> (2cf 1of)	[8]

- (c) Statements of Financial Position for businesses X and Y

	Business X \$	\$	Business Y \$	\$
Non-current assets		1 752 000		824 500
Current assets				
Inventory	38 000		48 000	
Trade receivables	60 000 (2cf 1of)		12 500 (2cf 1of)	
Cash and cash equivalents	<u>30 000</u>	<u>128 000</u>	<u>14 000</u>	<u>74 500</u>
Total assets		1 880 000		899 000
Current liabilities				
Trade payables		<u>80 000</u> (2cf 1of)		<u>149 000</u> (2cf 1of)
Net assets		<u>1 800 000</u>		<u>750 000</u>
Capital		800 000		700 000
Non-current liabilities				
Loan		<u>1 000 000</u>		<u>50 000</u>
Capital employed		<u>1 800 000</u> (2cf 1of)		<u>750 000</u> (2cf 1of)

[12]

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(d) (i) The ability of current assets (1) to meet current liabilities (1) [2]

(ii) Y (1) [1]

(iii) Current ratio **or** acid test ratio (1)

Well below expected rate (1). This means that Y does not have sufficient liquidity (1) and if creditors demanded swift payment (1) then Y would not have sufficient funds (1) to make payments. **Maximum 3 marks for development.** [4]

[Total: 30]

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2 (a) Statement of corrected net profit

	+	-		
	\$	\$	\$	
Draft profit for the year			30 000	(1)
Depreciation		3 500 (1)		
Inventory		7 500 (1)		
Loan interest		1 000 (1)		
Purchase invoice		<u>2 000 (1)</u>		
Sales invoice	4 000 (1)		(10 000)	
Corrected profit for the year			<u>20 000</u>	(1of) [7]

(b) Calculation of capital

	\$		
Capital	90 000		
Add net profit	<u>20 000</u>	(1of)	
	110 000		
Less drawings	<u>2 000</u>	(1cf)	
Capital	<u>108 000</u>		[2]

(c) Profitability **or** turnover of Grosz's business

Reputation **or** customers returning to Grosz's business
 Location of Grosz's business
 Quality of workforce
 Quality of products

[4]

(d)

Capital accounts

	Grosz	Kayal		Grosz	Kayal
	\$	\$		\$	\$
Goodwill	24 000(1of)	16 000(1of)	Balance b/d	108 000 (1of from b)	
Balance c/d	124 000	98 000	Goodwill	40 000 (1of from a)	
			Bank/Cash		30 000 (1)
			Equipment		60 000 (1)
			Inventory		<u>24 000 (1)</u>
	<u>148 000</u>	<u>114 000</u>		<u>148 000</u>	<u>114 000</u>

[7]

		\$		\$	
Net profit				88 600	(1)
Add interest on drawings					
	Grosz	2 000	(1)		
	Kayal	<u>1 000</u>	(1)	<u>3 000</u>	
				91 600	
Less interest on capital					
	Grosz	6 200	(1of)		
	Kayal	<u>4 900</u>	(1of)	<u>11 100</u>	
				80 500	
Salary – Kayal		10 500	(1)	<u>70 000</u>	
Share of profit (first 40%)					
	Grosz	14 000	(1of)		
	Kayal	14 000	(1of)		
Share of profit					
	Grosz	25 200	(1of)		
	Kayal	16 800	(1of)	<u>70 000</u>	
Combined share of profits in the correct ratios:					
Grosz 39 200 (2of)					
Kayal 30 800 (2of)					

[10]

[Total: 30]

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3 (a) Contribution = \$45.50 – \$35.00 = \$10.50 (1)

Breakeven point = \$23 100 (1) / \$10.50 (1of) = 2200 units (1cf) [4]

(b) 4000 units – 2200 units = 1800 units (1of) × \$45.50 (1) = \$81 900 (1of) [3]

(c) Bond \$52.00 – \$44.00 = \$8.00 (1)

Cord \$67.50 – \$55.00 = \$12.50 (1) [2]

(d) Apex 4000 × 3.5 m = 14 000 m (1)

Bond 6000 × 4 m = 24 000 m (1)

Cord 2000 × 5 m = 10 000 m (1)

Total required = 48 000 m (1) [4]

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(e)

	Apex	Bond	Cord
Contribution	\$10.50	\$8.00	\$12.50
Metres of direct material	3.5 m	4 m	5 m
Contribution per metre	\$3.00 (1of)	\$2.00 (1of)	\$2.50 (1of)
Ranking	1	3	2 (1of for all 3)

Optimum production plan

Apex	$4000 \times 3.5 \text{ m}$	=	14 000 m
Bond	$4000 \times 4 \text{ m}$	=	16 000 m (1)
Cord	$2000 \times 5 \text{ m}$	=	<u>10 000 m</u> (1)
Total material			<u>40 000 m</u> (1)

\$

Contribution Apex $4000 \times \$10.50$	42 000 (1of)
Contribution Bond $4000 \times \$8.00$	32 000 (1of)
Contribution Cord $2000 \times \$12.50$	<u>25 000</u> (1of)
Total contribution	99 000 (1of)
Fixed overheads	<u>46 200</u> (1)
Profit for the year	<u>52 800</u> (1of)

[13]

- (f) Fixed overheads are treated as a period cost under marginal costing (1) but as part of the cost of production under absorption costing (1). As a result, the fixed overheads are written off in the period's income statement (1) rather than being carried forward as part of the inventory as is the case in absorption costing (1). [4]

[Total: 30]