

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

**MARK SCHEME for the October/November 2010 question paper
for the guidance of teachers**

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.

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1A (a) (i)

James and Gemma
Income Statement (Trading and Profit and Loss) and Appropriation Account
for the six month period ending 30 June 2009

	\$	\$	\$
Revenue (sales)			90 000
Less Cost of sales			
Opening Inventory (Stock)	6 300		
Purchases	<u>70 000</u>	(1)	
		76 300	
Less Closing Inventory (Stock)		<u>16 300</u>	
Cost of sales			<u>60 000</u>
Gross Profit			30 000
Less Expenses (Working 1)			
General expenses		6 000	(1)
Depreciation		5 100	(1)
Loan interest		<u>1 350</u>	(1)
			<u>12 450</u>
Profit for the year (Net Profit)			<u><u>17 550</u></u>
Less Salaries:			
James		0	
Gemma		<u>3 000</u>	(1)
		3 000	
Less Interest on capital:			
James ($90\,000 \times 8\% \times 6 / 12$)	3 600	(1)	
Gemma ($60\,000 \times 8\% \times 6 / 12$)	<u>2 400</u>	(1)	
		<u>6 000</u>	
			<u>9 000</u>
			<u><u>8 550</u></u>
Balance of profits shared:			
James		4 275	(1)
Gemma		<u>4 275</u>	
			<u><u>8 550</u></u>

Working 1

Total expenses	25 525	
Depreciation (1 st Half of the Year)	5 100	
Depreciation (2 nd Half of the Year)	5 725	
Loan Interest	<u>2 700</u>	$45\,000 \times 6\% = 2\,700\text{pa}$
General Expenses	<u><u>12 000</u></u>	

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(ii)

James and Gemma
Income Statement (Trading and Profit and Loss) and Appropriation Account
for the six month period ending 31 December 2009

	\$	\$	\$
Revenue (sales)		150 000	
Less Cost of sales			
Opening Inventory (Stock)	16 300		
Purchases	<u>104 000</u>		
		120 300	
Less Closing Inventory (Stock)		<u>20 300</u>	
Cost of Sales			<u>100 000</u>
Gross Profit			50 000
Less Expenses			
General expenses		6 000	(1)
Loan interest		1 350	(1)
Depreciation		<u>5 725</u>	(1)
			<u>13 075</u>
Profit for the year (Net Profit)			<u><u>36 925</u></u>
Less Salaries:			
James		0	
Gemma		<u>3 000</u>	(1)
		3 000	
Less Interest on capital:			
James (115 000 x 8% x 6 / 12)	4 600	(1)	
Gemma (60 000 x 8% x 6 / 12)	2 400	(1)	
		<u>7 000</u>	
			<u>10 000</u>
			<u><u>26 925</u></u>
Balance of profits shared: (2 : 2 : 1)			
James		13 462.50	
Gemma		13 462.50	(1)
			<u><u>26 925</u></u>

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(b)

	James		Gemma		James		Gemma
Drawings	15 200	(1)	18 300	(1)	Balance b/d	12 000	(1) 9 000
					Interest on capital	8 200	(1) 4 800 (1)
					Salaries	0	6 000 (1)
Balance c/d	<u>22 737.50</u>		<u>19 237.50</u>		Share of Profit	<u>17 737.50</u>	<u>17 737.50</u>
	<u>37 937.50</u>		<u>37 537.50</u>			<u>37 437.50</u>	<u>38 037.50</u>
					Balance b/d	22 737.50	19 237.50

[6]

- (c)** Increased skills
 Additional capital
 Spread risk
 Holiday / sickness cover
 Shared workload
(1 each maximum of 3)

[3]

1B (i) $240\,000 / (18\,000 + 22\,000) / 2 = 12$ **(1)** times **(1)**

(ii) $24\,000 / 500\,000 = 4.8$ **(1)** % **(1)**

(iii) $63\,000 / 64\,000 = 0.98$ **(1)** : 1 **(1)**

[6]

[Total: 30]

2 (a) 300 units **(1)** @ \$20 **(1)** = \$6 000 **(2 cf or 1 of)**

[4]

(b)

Paula Bridgewater
 Income Statement (trading account) for the month of February 2009

	\$	\$	\$
Sales			182 000 (1)
Opening Inventory (Stock)	7 000 (1)		
Purchases	<u>97 000</u> (1)		
		104 000	
Closing Inventory (Stock)		<u>6 000</u> (1)	
Cost of Sales			<u>98 000</u>
Gross Profit			84 000 (1of)

[5]

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- (c) Stock should be valued at the lower of cost and net realisable value.
IAS states companies should either use the FIFO or AVCO method of stock valuation.
Whichever method is used should be used consistently – Consistency concept.
Prudence concept states that companies should choose the lowest value when valuing their assets.

(3 × 2 marks) (1 plus 1 for development)

[6]

(d)

Paula Bridgewater
Income Statement (trading account) for the period ending 31 December 2009

	\$	\$	\$
Sales			362 000 (1)
Opening Inventory (Stock)	11 700 (1)		
Purchases	<u>22 600 (1)</u>		
		34 300	
Closing Inventory (Stock)		<u>7 150 (2)</u>	
Cost of Sales			<u>27 150</u>
Gross Profit			9 050 (1of)

(Accept any other format or calculation)

[6]

- (e) Depreciation for the period = $(6000 - 600) \times 20\% \times 2/12 = \180 (2)
Net Book Value = 3 840 (1) – 180 (1of) = 3 660

[4]

(f)

Total Trade Receivables (debtors)

Bal b/d	2 400	Bad debt	600 (1)
		Cash / bank	4 300 (1)
Sales	<u>6 500 (1)</u>	Bal c/d	<u>4 000 (2cf or 1of)</u>
	<u>8 900</u>		<u>8 900</u>

[5]

[Total: 30]

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3 (a) (i)

Cutting Department	501 600 / 76 000	\$6.60 (1)
Pressing Department	450 000 / 72 000	\$6.25 (1)
Production Department	702 000 / 104 000	\$6.75 (1)
Assembly Department	264 000 / 44 000	\$6.00 (1)

[4]

(ii)

Cutting Department	364 800 / 76 000	\$4.80 per DLH (1)
Pressing Department	439 200 / 72 000	\$6.10 per DLH (1)
Production Department	509 600 / 104 000	\$4.90 per DLH (1)
Assembly Department	233 200 / 44 000	\$5.30 per DLH (1)

[4]

(b)**Statement to show total cost for Job Number SMC20**

		\$	\$	
Direct materials			140 156	(1)
Direct labour				
Cutting Department		13 200		
Pressing Department		9 000		
Production Department		16 200		
Assembly Department		<u>6 000</u>	<u>44 400</u>	(1)
Prime cost			184 556	
Factory overheads				
Cutting Department	13 200 / 6.60 = 2 000 (1) × 4.80	9 600		(1)
Pressing Department	9 000 / 6.25 = 1 440 (1) × 6.10	8 784		(1)
Production Department	16 200 / 6.75 = 2 400 (1) × 4.90	11 760		(1)
Assembly Department	6 000 / 6.00 = 1 000 (1) × 5.30	<u>5 300</u>		(1)
			<u>35 444</u>	
Cost of production			220 000	(1of)
Administration costs			<u>44 000</u>	(1of)
Total cost			<u><u>264 000</u></u>	

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(c) Selling price = 264 000 (1of) \times 125% (1) = \$330 000 (1of) [3]

(d) Overheads tend to be related to time.
The company may be labour intensive
Using a departmental labour rate is appropriate if different grades of labour are used in each department.

(2 \times 2 marks – 1 for point and 1 for development / 1 further mark for evaluation point) [5]

(e) Single factory rate
Machine hour rate
Unit cost
% prime cost
% direct labour cost
% direct material cost
Activity based costing

(2 \times 1 mark) [2]

[Total: 30]