

**MARK SCHEME for the May/June 2010 question paper**  
**for the guidance of teachers**

**9706 ACCOUNTING**

**9706/21**

Paper 21 (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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**1 (a)** Income statement (Trading and Profit and Loss Account)  
for the year ended 30 April 2010

	\$000	\$000	
Revenue (sales)		1600	<b>1</b>
Cost of sales			
Inventory (stock) at 1 May 2009	124		<b>1</b>
Ordinary goods purchased (Purchases)	<u>946</u>		<b>1</b>
	1070		
Inventory (stock) at 30 April 2010	<u>219</u>	<u>851</u>	<b>1</b>
Gross Profit		749	<b>1of</b>
Operating expenses:			
Wages	172		<b>1</b>
Distribution expenses	48		<b>1</b>
Business rates	50		<b>1</b>
Insurance	28		<b>1</b>
Advertising	79		<b>1</b>
Depreciation			
Buildings (Property)	30		<b>2of</b> see
Warehouse fittings	35		<b>3of</b> below
Loss on sale	1	<u>443</u>	<b>1</b>
Profit from operations (Operating profit)		<u>306</u>	<b>1of</b>
Loan interest		<u>12</u>	<b>1</b>
Profit for the year (Net profit)		<u>294</u>	<b>1of</b>

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	\$000	\$000	
Workings for depreciation:			
Cost		Depn	
Balance on Warehouse fittings per trial balance	348	197	
Less cost of fittings sold	<b>1</b> <u>52</u>	<u>41</u>	Marks
	296	156	for
Depreciation for year = $(296 - 156) \times 25\% =$	<b>2</b>	<u>35</u>	dep'n
Total depreciation for balance sheet		<u>191</u>	
Balance on Property (buildings) per trial balance	1490	320	
Add back per note (ii)	<b>1</b> <u>10</u>		
	1500		
Depreciation for year = $1500 \times 2\%$	<b>1</b>	<u>30</u>	
Total depreciation for balance sheet		<u>350</u>	

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(b) Balance Sheet at 30 April 2010

	\$000	\$000	\$000	
	Cost	Dep'n	NBV	
<b>Assets</b>				
Non-current (fixed) assets				
Property (Buildings)	1500	350	1150	1
Warehouse fittings	<u>296</u>	<u>191</u>	<u>105</u>	1
	<u>1796</u>	<u>541</u>	1255	1of
Current Assets				
Stock		219		1
Trade receivables (debtors)		360		
Other receivables		2		1
Cash and cash equivalents (bank)		<u>48</u>	<u>629</u>	
<b>Total assets</b>			<u>1884</u>	
<b>Equity and liabilities</b>				
Equity:				
Capital at 1 May 2009			1400	
Net profit			<u>294</u>	1of
			1694	
Drawings			<u>25</u>	1
			1669	
Current liabilities				
Trade payables (creditors)		92		
Other payables (accruals) (12 + 5 + 6)		<u>23</u>	115	3
Non-current liabilities				
12% Loan repayable 2015			<u>100</u>	1
			<u>1884</u>	

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[Total: 30]

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- 2 (a) (ii)  $\frac{\text{Net profit}}{\text{Sales}} \times 100 = \frac{45\,000}{375\,000} \times 100 = 12\%$
- (iii)  $\frac{\text{Net profit}}{\text{Capital}} \times 100 = \frac{45\,000}{450\,000} \times 100 = 10\%$
- (iv)  $\frac{\text{Net profit}}{\text{Total Assets}} \times 100 = \frac{45\,000}{480\,000} \times 100 = 9.40\%$
- (v)  $\frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{52\,000}{30\,000} = 1.7:1$
- (vi)  $\frac{\text{Current Assets} - \text{Stock}}{\text{Current Liabilities}} = \frac{24\,000}{30\,000} = 0.8:1$
- (vii)  $\frac{\text{Debtors}}{\text{Sales}} \times 365 = \frac{22\,500}{375\,000} \times 365 = 22 \text{ days (or 21.9)}$
- (viii)  $\frac{\text{Creditors}}{\text{Purchases}} \times 365 = \frac{30\,000}{281\,250} \times 365 = 39 \text{ days (or 38.9)}$
- (ix)  $\frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = \frac{285\,250}{30\,000} = 9.5 \text{ times}$

2 marks each to a total of 16

[16]

1 mark for correct formula or working or 2 for correct answer.

(b) Chikkadea

[2]

- (c) C's gross profit margin shows that she makes more gross profit for every dollar of sales.  
 C's net profit margin shows that she makes more net profit for every dollar of sales.  
 C's return on total assets shows that for every dollar's worth of total assets in the business she receives a better return than D does.  
 C's return on capital employed shows that for every dollar she has invested in the business she receives more profit in return.  
 C's current ratio shows that she is more able to pay her short term debts.  
 C's liquid ratio shows that she is more able to pay her immediate debts.  
 C's debtors' turnover shows that she collects debt faster so that cash becomes available sooner.  
 C's creditors' turnover shows that she is given longer to pay her debts and has more time to make use of her creditors' cash.  
 C's inventory return rate (rate of stockturn) shows that she sells her goods faster and should therefore make her profits faster.

Any **four** of the above answers for a maximum of 3 marks each.

[12]

[Total: 30]

<b>3 (a)</b>				Alternative methods	
	Marginal costing			Marginal costing	
		\$			\$
	Sales (365 × \$34.00)	<u>12 410</u>	<b>2</b>	Sales	12 410 <b>2</b>
	Cost of production			Cost of sales	
	Direct material 380 × (1.00 + 3.00 + 7.00)	4 180	<b>2</b>	Prod costs	6270 <b>W1</b> <b>6</b>
	Direct labour (380 ÷ 4 × 8)	760	<b>2</b>	Clos stock	<u>248</u> <b>W2</b> <u>6 022</u> <b>4</b>
	Variable overhead (380 ÷ 4 × 14)	<u>1 330</u>	<b>2</b>	Commission	<u>365</u> <b>1</b>
		6 270		Contribution	6 023 <b>1</b>
	less stock increase (15 × 16.50)	<u>248</u>	<b>4</b>	Fixed costs	<u>4 290</u> <b>1</b>
		6 023		Net profit	<u>1 733</u> <b>1</b>
	add sales commission 365 × 1	<u>365</u>	<b>1</b>		
		<u>6 388</u>			<b>[16]</b>
	Contribution	6 023	<b>1</b>		
	less fixed factory overhead	3 040			
	less fixed admin expenses	1 250	<b>4 290</b>		
	Net profit	<u>1 733</u>	<b>1</b>		
			<b>[16]</b>		

<b>(b)</b>	Absorption costing	\$		Absorption costing	\$
	Sales	<u>12 410</u>	<b>1</b>	Sales	12 410 <b>1</b>
	Cost of production			Cost of sales	
	Direct material	4 180	} <b>1</b>	Prod costs	9310 <b>W3</b> <b>3</b>
	Direct labour	760		Clos stock	<u>368</u> <b>W4</b> <u>8 943</u> <b>3</b>
	Variable overhead	<u>1 330</u>		Gross Profit	3 468 <b>1</b>
	Fixed overhead (380 × 3040 ÷ 380)	<u>3 040</u>	<b>2</b>	Commission	365
		9 310		Admin	<u>1250</u>
	less closing stock (15 × (11 + 2 + 3.5 + 8))	<u>368</u>	<b>3</b>	Net profit	<u>1 615</u> <b>1</b>
	Production cost of sales	<u>8 943</u>			<u>1 853</u> <b>1</b>
					<b>[10]</b>
	Gross profit	3 468	<b>1</b>		
	less sales commission	365			
	Less fixed admin expenses	1 250	<u>1 615</u>		
	Net profit	<u>1 853</u>	<b>1</b>		
			<b>[10]</b>		

<b>(c)</b>	Reconciliation of profit	
	Absorption costing profit	1 853
	Marginal costing profit	<u>1 733</u>
	Difference	<u>120</u> <b>1</b>

Being value of closing stock 15 units **1** @ £8 **1**, the fixed factory overhead **1** is not included in marginal costing. **[4]**

The alternative methods use the following workings:

<b>W1</b>	380(1.00 + 3.00 + 7.00 + 2.00 + 3.50)	6270
<b>W2</b>	15(1.00 + 3.00 + 7.00 + 2.00 + 3.50)	247.5 (rounded to 248)
<b>W3</b>	380(1.00 + 3.00 + 7.00 + 2.00 + 3.50 + 8.00)	9310
<b>W4</b>	15(1.00 + 3.00 + 7.00 + 2.00 + 3.50 + 8.00)	367.5 (rounded to 368)

**[Total: 30]**