UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

**GCE Advanced Subsidiary Level and GCE Advanced Level**

# MARK SCHEME for the May/June 2010 question paper

# for the guidance of teachers

## 9706 ACCOUNTING

| | |
|---|---|
| **9706/22** | Paper 22 (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.

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UNIVERSITY of CAMBRIDGE
International Examinations

**1 (a)** Manufacturing Account for the year ended 30 April 2010

| | $000 | $000 | | |
|---|---|---|---|---|
| Raw materials | | | | |
| Stock at 1 May 2009 | | 164 | **1** | |
| Purchases | | 2628 | **1** | |
| | | 2792 | | |
| Stock at 30 April 2010 | | 202 | **1** | |
| Cost of raw materials consumed | | 2590 | | |
| Manufacturing wages | | 520 | **1** | |
| Prime cost | | 3110 | | |
| Factory overheads | | | | |
| Factory expenses | 432 | | **1** | |
| Factory depreciation | 700 | 1132 | **1** | |
| | | 4242 | | |
| Work in progress | | | | |
| Stock at 1 May 2009 | 146 | | **1** | |
| Stock at 30 April 2010 | 128 | 18 | **1** | |
| Factory cost of production | | 4260 | | **[8]** |

**(b)** Income Statement (Trading and Profit and Loss Account) for year ended 30 April 2010

| | $000 | $000 | | |
|---|---|---|---|---|
| Sales | | 5684 | **1** | |
| Stock of finished goods at 1 May 2009 | 292 | | | |
| Cost of production | 4260 | | | |
| | 4552 | | | |
| Inventory (stock) of finished goods at 30 April 2010 | 252 | 4300 | **1** | |
| Gross profit | | 1384 | | |
| Reduction in provision for doubtful debts | 6 | | **1** | |
| Income from rent | 48 | 54 | **1** | |
| | | 1438 | | |
| Depreciation | 238 | | **1** | |
| Bank charges | 12 | | **1** | |
| Bank interest | 38 | | **1** | |
| Office expenses | 348 | | **1** | |
| Salaries | 222 | | **1** | |
| Sales expenses | 248 | | **1** | |
| Bad debt written off | 14 | 1120 | **1** | **[11]** |
| Net profit | | 318 | | |

**(c)** Balance Sheet at 30 April 2010

| | | $000 Cost | $000 Deprec | $000 NBV | | |
|---|---|---|---|---|---|---|
| Non-current (fixed) assets | | | | | | |
| Factory | | 2800 | 1800 | 1000 | **2** | |
| Office | | 952 | 618 | 334 | **2** | |
| | | 3752 | 2418 | 1334 | | |
| Current assets | | | | | | |
| Inventories (stocks) | | | | | | |
| Raw materials | | 202 | | | | |
| Finished goods | | 252 | | | | |
| Work in progress | | 128 | | | | |
| | | 582 | | | **1** | |
| Trade receivables | 466 | | | | **1** | |
| prov for d debts | 10 | 456 | 1038 | | **1** | |
| Current Liabilities | | | | | | |
| Trade payables | | 426 | | | **1** | |
| Bank | | 290 | 716 | 322 | **1** | |
| | | | | 1656 | | |
| Capital at 1 May 2009 | | | | 1338 | **1** | |
| Net profit | | | | 318 | **1** | **[11]** |
| | | | | 1656 | | |

**[Total: 30]**

**2** Data

| Non-current (fixed) assets | Machinery | Motor Vehicles |
|---|---|---|
| | $000 | $000 |
| Cost 1 May 2008 | 4200 | 3200 |
| Additions during year | 1200 | 800 |
| Less disposals during year | -700 | -1000 |
| Cost 30 April 2009 | 4700 | 3000 |
| | | |
| Depreciation balance at 1 May 2008 | 1560 | 840 |
| Add charge for year | 470 | 750 |
| Less on disposals for year | -520 | -800 |
| Depreciation balance at 30 April 2009 | 1510 | 790 |

Percentage depreciation

Machinery $\frac{470 \times 100}{4700}$ 10%

Motor vehicles $\frac{750 \times 100}{3000}$ 25%

**(a) (i)** Disposal accounts

Machinery

| | | $000 | | $000 | |
|---|---|---|---|---|---|
| Cost | **1** | 400 | Depn 4 years | 160 | **1** |
| | | | Cash | 200 | **1** |
| | | | Loss | 40 | **1of** |
| | | 400 | | 400 | |

Vehicles (item 2)

| | | | | | |
|---|---|---|---|---|---|
| Cost | **1** | 400 | Depn 3 years | 300 | **1** |
| Profit | **1of** | 20 | Part exch | 120 | **1** |
| | | 420 | | 420 | |

Vehicles (item 3)

| | | | | | |
|---|---|---|---|---|---|
| Cost | **1** | 360 | Depn 1 year | 90 | **1** |
| | | | Bank | 210 | **1** |
| | | | Loss | 60 | **1of** |
| | | 360 | | 360 | |

**[12]**

DOES NOT NEED TO BE IN THE FORM OF ACCOUNTS

**(ii)** Non-current (fixed) asset schedule

| | | Machinery | Motor Vehicles | |
|---|---|---|---|---|
| | | $000 | $000 | |
| Cost at 1 May 2010 | | 4700 | 3000 | |
| Additions during year | **1** | 900 | 840 | **1** |
| Less disposals during year | **1** | -400 | -760 | **1** |
| Cost at 30 April 2011 | | 5200 | 3080 | |
| | | | | |
| Depreciation at 1 May 2010 | | 1510 | 790 | |
| Add charge for year | **1of** | 520 | 770 | **1of** |
| Less on disposals during year | **1of** | -160 | -390 | **1of** |
| | | 1870 | 1170 | |

**[8]**

**(b)** **(i)** 1 Wear and tear
2 Obsolescence
3 Time
4 Depletion
**No** marks for methods. Any three correct for (3) **[3]**

**(ii)** 1 Machinery, vehicles
2 Computers, any technological equipment
3 Lease
4 Quarry, oil well etc.
Any three correct for (3) **[3]**

**(c)** 1 Cost or Market value
2 Useful life
3 Residual value at end of useful life
4 Expected length of ownership
5 Rate of usage
6 Method of depreciation
7 Type of asset
8 Machine hours
Any correct 4 for (4) **[4]**

**[Total: 30]**

**3** **(a)** **(i)** The break-even point is the level of activity at which the business makes neither a profit nor a loss – i.e. total contribution = total fixed costs. (accept a relevant formula) [2]

**(ii)** The margin of safety is the distance between the break-even point and the expected level of activity. It is the amount by which actual activity can fall short of expected activity before a loss is incurred. [2]

**[4]**

| DATA | | |
|---|---|---|
| | Sales | 460 000 |
| | Variable costs | 299 000 |
| | Fixed costs | 90 000 |

**(b)** $\frac{\text{Sales - variable costs}}{\text{Sales}} \times 100$ $\qquad$ $\frac{\overset{\mathbf{1}}{460} - \overset{\mathbf{1}}{299}}{\underset{\mathbf{1}}{460}} \times 100$ $\qquad$ 35% **1of** **[4]**

**(c)** $\frac{\text{Fixed costs}}{\text{c/s ratio}} \times 100$ $\qquad$ $\overset{\mathbf{1}}{90\,000} \times \frac{100}{\underset{\mathbf{1of}}{35}}$ $\qquad$ \$257 143 **1of** **[3]**

**(d)** $(\text{Fixed costs} + \text{profit}) \times \frac{100}{\text{c/s ratio}}$ $\qquad$ $(\overset{\mathbf{1}}{90\,000} + \overset{\mathbf{1}}{100\,000}) \times \frac{100}{\underset{\mathbf{1of}}{35}}$ $\qquad$ \$542 857 **1of** **[4]**

**(e)** $\text{Sales} \times \text{c/s ratio - fixed costs}$ $\qquad$ $(\overset{\mathbf{1}}{375\,000} \times \overset{\mathbf{1of}}{\frac{35}{100}}) - \overset{\mathbf{1}}{90\,000}$ $\qquad$ \$41250 **1of** **[4]**

**OR** $\underset{\mathbf{1}}{375\,000} - (\underset{\mathbf{1of}}{.65} \times 375\,000 + \underset{\mathbf{1}}{90\,000})$ $\qquad$ \$41250 **1of**

**(f)** Revised contribution = sales - 5% - variable costs

| | | | |
|---|---|---|---|
| 460 000 - | 23 000 - | 299 000 | \$138 000 |
| **1** | **1** | **1** | **1of** |

$$\text{Revised c/s ratio} = \frac{\text{revised contribution}}{\text{new sales}} \times 100$$

$$\frac{\overset{\textbf{1of}}{\$138\,000 \times 100}}{\underset{\textbf{1}\qquad\textbf{1}}{460\,000 \times 0.95}} \qquad 31.57895\%$$

$$\text{Fixed costs} + \text{profit} \times \frac{100}{\text{c/s ratio}}$$

$$= (\overset{\textbf{1}}{90\,000} + \overset{\textbf{1}}{80\,000}) \times \frac{100}{\underset{\textbf{1of}}{31.57895}} \qquad \$538\,333 \;\; \textbf{1of}$$

Accept answers between \$531 250 and \$548 387 – answer depends on number of decimal places revised c/s ratio is taken to. **[11]**

ALTERNATIVE METHODS ACCEPTABLE THROUGHOUT

**[Total: 30]**