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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2013 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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	248 400	1 050 000	
Gross profit	291 600	450 000	
Expenses	194 400	360 000	
Profit for year	97 200 **(2cf 1 of)**	90 000 (**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	30 000	128 000	14 000	74 500
Total assets	1 880 000			899 000
Current liabilities				
Trade payables		80 000 **(2cf 1of)**		149 000**(2cf 1of)**
Net assets		1 800 000		750 000
Capital		800 000		700 000
Non-current liabilities				
Loan		1 000 000		50 000
Capital employed		1 800 000 **(2cf 1of)**		750 000**(2cf 1of)**

[12]

(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]

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		2 000 **(1)**			
Sales invoice	4 000 **(1)**		(10 000)		
Corrected profit for the year			20 000	**(1of)**	**[7]**

(b) Calculation of capital

	$		
Capital	90 000		
Add net profit	20 000	**(1of)**	
	110 000		
Less drawings	2 000	**(1cf)**	
Capital	108 000		**[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		24 000 **(1)**
	148 000	114 000		148 000	114 000

[7]

(e) Appropriation account for the year ended 30 June 2013

		$		$	
Net profit				88 600	**(1)**
Add interest on drawings					
	Grosz	2 000	**(1)**		
	Kayal	1 000	**(1)**	3 000	
				91 600	
Less interest on capital					
	Grosz	6 200	**(1of)**		
	Kayal	4 900	**(1of)**	11 100	
				80 500	
Salary – Kayal		10 500	**(1)**	70 000	
Share of profit (first 40%)					
	Grosz	14 000	**(1of)**		
	Kayal	14 000	**(1of)**		
Share of profit					
	Grosz	25 200	**(1of)**		
	Kayal	16 800	**(1of)**	70 000	

[10]

Combined share of profits in the correct ratios:
Grosz 39 200 (2of)
Kayal 30 800 (2of)

[Total: 30]

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	= <u>10 000</u> m **(1)**	
Total required		= <u>48 000</u> m **(1)**	**[4]**

(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 × 3.5 m	=	14 000 m
Bond	4000 × 4 m	=	16 000 m **(1)**
Cord	2000 × 5 m	=	10 000 m **(1)**
Total material			40 000 m **(1)**

	$
Contribution Apex 4000 × $10.50	42 000 **(1of)**
Contribution Bond 4000 × $8.00	32 000 **(1of)**
Contribution Cord 2000 × $12.50	25 000 **(1of)**
Total contribution	99 000 **(1of)**
Fixed overheads	46 200 **(1)**
Profit for the year	52 800 **(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]