**CAMBRIDGE INTERNATIONAL EXAMINATIONS**

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

# MARK SCHEME for the May/June 2014 series

## 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.

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 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

CAMBRIDGE
International Examinations

**1 (a)**

Ocean Fishing Club Shop
Trading Account for the year ended 31 March 2014

| | $ | | $ | |
|---|---|---|---|---|
| Sales | | | 7 690 | |
| Less cost of sales | | | | |
| Inventory on 1/4/2013 | 975 | | | |
| Add purchases | 3 198 | **(1)** | | |
| | 4 173 | | | |
| Less inventory on 31/3/2014 | 859 | | 3 314 | |
| Gross profit | | | 4 376 | |
| Less | | | | |
| Wages | 3 615 | **(1)** | | |
| Depreciation | 110 | **(1)** | 3 725 | |
| Profit for the year | 651 | **(1of)** | | **[4]** |

**(b)**

Ocean Fishing Club
Income and Expenditure Account for the year ended 31 March 2014

| | $ | | $ | |
|---|---|---|---|---|
| Shop profits | 651 | | | |
| Subscriptions | 7 000 | **(1)** | | |
| Family day | 2 300 | | | |
| Interest | 300 | **(1)** | 10 251 | |
| Less expenses | | | | |
| Administration expenses | 2 790 | | | |
| Repairs | 2 450 | **(1)** | | |
| Depreciation | 1 869 | **(3)** | 7 109 | |
| Surplus | | | 3 142 | |

Depreciation 1029 **(1)** + 840 **(1)** = 1869 **(1of)** **[6]**

**(c)**

Ocean Fishing Club
Statement of Financial Position at 31 March 2014

| | | Cost | | Dep'n | | NBV | |
|---|---|---|---|---|---|---|---|
| | | $ | | $ | | $ | |
| Non-current assets | | | | | | | |
| Equipment | | 15 400 | **(1)** | 4 809 | **(1of)** | 10 591 | |
| Shop fittings | | 750 | | 110 | | 640 | |
| | | 16 150 | | 4 919 | | 11 231 | **(1of)** |
| Current assets | | | | | | | |
| Inventory | | 859 | | | | | |
| Subscription in arrears | | 200 | **(1)** | | | | |
| Bank – current account | | 876 | | | | | |
| Bank – deposit account | | 13 300 | **(1of)** | | | | |
| | | | | 15 235 | | | |
| Current liabilities | | | | | | | |
| Trade payables | | 784 | | | | | |
| Other payables | 370+195 | 565 | | | | | |
| Subscriptions in advance | | 720 | **(1)** | 2 069 | | 13 166 | |
| | | | | | | 24 397 | |
| Accumulated Fund | **(1)** | | | 19 805 | **(1)** | | |
| Add surplus | **(1)** | | | 3 142 | **(1of)** | 22 947 | |
| Donations fund | | | | | | 1 450 | **(1)** |
| | | | | | | 24 397 | |

**[11]**

**(d)** **1** Use funds from the deposit account

**2** Bank loan

**3** Ask members for donations

**4** Fund raising events

**1 mark per valid suggestion (3)** **[3]**

**(e)** Answers will be based on methods selected. For those above:

**1** Advantage: Immediate funds available.
Disadvantage: No cash reserves for the club. Loss of interest.

**2** Advantage: Funds available from bank for full amount.
Disadvantage: Interest will have to be paid. May require security.

**3** Advantage: No interest payable.
Disadvantage: May not raise enough money, so other / additional method will be needed.

**4** Advantage: No interest payable.
Disadvantage: May not raise enough money, so other / additional method will be needed.

**1 mark for advantage and 1 for disadvantage (max. 6)** **[6]**

**[Total: 30]**

**2** **(a)** Non-current assets generate profit for the business **(1)**. Depreciation is a fall in value of a non-current asset **(1)** due to wear and tear and other factors by making a charge against income generated **(1)** reducing the profit and thereby applying the prudence concept **(1)**.

**1 mark per valid point (max. 3)** **[3]**

**(b)** **(i)** Wear and tear **(1)**

**(ii)** Obsolescence **(1)**

**(iii)** Technological innovation **(1)** **[3]**

**(c)** Rates of depreciation

Buildings = $40 000 / $2 000 000 = 2% **(1)**
Machinery = $400 000 / $2 000 000 = 20% **(1)**
Motor vehicles = $100 / [$(700 – 300 + 100)] = 20% **(2)**
**(1)** **(1of)** **[4]**

**(d)** Assets suffer wear and tear, etc. and lose their value at different rates **(1)**. This might depend on the degree of use of the asset. Vehicles tend to lose more value in the early years of use **(1)**; hence the reducing balance method is more appropriate. Buildings tend to lose value **(1)** more consistently over their lifetime; therefore, the straight line method tends to be more appropriate **(1)**. **[4]**

**(e)**

| | Buildings | Machinery | Motor vehicles | Total |
|---|---|---|---|---|
| | $ 000 | $ 000 | $ 000 | $ 000 |
| COST | | | | |
| Balance at 31 May 2013 | 2000 | 2000 | 700 | 4700 |
| Additions | 1000**(1)** | 720**(1)** | 200**(1)** | 1920 |
| Disposals | – | (160)**(1)** | (100)**(1)** | (260) |
| Balance at 31 May 2014 | 3000 | 2560 | 800 | 6360**(1of)** |
| | | | | |
| DEPRECIATION | | | | |
| Balance at 31 May 2013 | 120 | 800 | 300 | 1220 |
| Charge for the year | 60**(1)** | 512**(1)** | 108**(1)** | 680 |
| Disposals | – | (64)**(1)** | (40)**(1)** | (104) |
| Balance at 31 May 2014 | 180 | 1248 | 368 | 1796**(1of)** |
| | | | | |
| NBV at 31 May 2014 | 2820**(1)** | 1312**(1)** | 432**(1)** | 4564**(1)** |
| | | | | |
| NBV at 31 May 2013 | 1880 | 1200 | 400 | 3480 |

**[16]**

**[Total: 30]**

**3 (a)** Advantage: Easier to calculate **(1)** by avoiding the necessity to allocate and apportion costs into departments. **(1)**

Disadvantage: Where different products spend differing amounts of time in departments **(1)** there is a danger that product costs will be under or overstated. **(1)**

**[4]**

**(b)** $367 200 / 162 000 direct labour hours = $2.27 per direct labour hour **(1)** **[1]**

**(c)**

| | | Total | Cutting | Sewing | Finishing | Stores | Maintenance | |
|---|---|---|---|---|---|---|---|---|
| Indirect wages | **(1)** | 185 400 | 27 810 | 46 350 | 27 810 | 37 080 | 46 350 | |
| Rent and rates | **(1)** | 38 500 | 9 167 | 11 000 | 5 500 | 5 500 | 7 333 | |
| Power | **(1)** | 32 600 | 13 873 | 17 340 | 1 387 | | | |
| Light and heat | **(1)** | 18 800 | 4 476 | 5 371 | 2 686 | 2 686 | 3 581 | |
| Machine depreciation | **(1)** | 73 700 | 37 954 | 28 244 | 5 296 | | 2 206 | |
| Buildings insurance | **(1)** | 18 200 | 4 333 | 5 200 | 2 600 | 2 600 | 3 467 | |
| | | 367 200 | 97 613 | 113 505 | 45 279 | 47 866 | 62 937 | |
| Stores | | **(1of)** | 35 900 | 8 377 | 1 196 | (47 866) | **(1of)** | 2 393 |
| | | | 133 513 | 121 882 | 46 475 | – | 65 330 | |
| Maintenance | | **(1of)** | 27 800 | 34 750 | 2 780 | | (65 330) | **(1of)** |
| | | | 161 313 | 156 632 | 49 255 | | – | |

**[10]**

**(d)** Cutting: $161 313 / 84 000 direct labour hours **(1)** = $1.92 per direct labour hour **(1of)**

Sewing: $156 632 / 50 000 machine hours **(1)** = $3.13 per machine hour **(1of)**

Finishing: $49 255 / 56 000 direct labour hours **(1)** = $0.88 per direct labour hour **(1of)** **[6]**

**(e)**

| | Cutting | Sewing | Finishing |
|---|---|---|---|
| Actual overheads | 168 180 | 146 320 | 51 870 |
| Absorbed | | | |
| $1.92 x 85 200 | 163 584 | | |
| $3.13 x 52 450 | | 164 169 | |
| $0.88 x 58 140 | | | 51 163 |
| | $4 596 **(1of)** | $17 849 **(1of)** | $707 **(1of)** |
| | Under absorbed **(1of)** | Over absorbed **(1of)** | Under absorbed **(1of)** |

**[6]**

**(f)** Manufacturing costs **(1)**
Selling costs **(1)**
Distribution costs **(1)**
Administration costs **(1)**
Finance charges and other costs **(1)**

**1 mark for each functional group (max. 3)** **[3]**

**[Total: 30]**