UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2007 question paper

9706 ACCOUNTING

9706/02 Paper 2 (Structured Questions (AS Topics)), 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.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the report on the examination.

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CIE is publishing the mark schemes for the May/June 2007 question papers for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

A1 **(a)** Aurora's Manufacturing Account for the year ended 31 March 2007

	$000	$000	$000	
Stock of raw materials at 1 April 2006		110		[1]
add Purchases	450			[1]
Carriage inwards	10			[1]
	460	442		
less returns	18			[1]
		552		
less Stock of raw materials at 31 March 2007		140		[1]
		412		
Direct labour		400		[1]
Direct overheads		60		[1]
Prime Cost		872		[1]
Factory overheads				
Rent	28			[2]
Electricity	36			[2]
Insurance	36			[2]
Supervisory Salaries	65			[1]
Indirect wages	13			[1]
Cleaning	50			[1]
Provision for depreciation on machinery	90	318		[1]
		1190		
Work in progress at 1 April 2006	55			[1]
less Work in progress at 31 March 2007	75	(20)		[1]
Cost of production		1170		**[1+1of]**
Manufacturing profit		390		[1]
Transferred to Trading account		1560		**[1of]**

Marks [24]

Trading account for year ended 31 March 2007

Sales			3200	[1]
less Cost of sales				
Stock of finished goods at 1 April 2006		80		[1]
Transferred from manufacturing account		1560		**[1of]**
		1640		
less Stock of finished goods at 31 March 2007		170	1470	[1]
Gross profit			1730	**[1+1of]**

Marks [6]

[Total: 30]

A2	Month	In Quantity	Price $	Value $		Out Quantity	Balance	Price $	Value $	
(a)	FIFO									
	February	300	25	7500	**[1]**		300	25	7500	
						150	150	25	3750	
	March	120	27	3240	**[1]**		120	27	3240	
						210	60	27	1620	
	April	240	29	6960	**[1]**		240	29	6960	
						205	95	29	2755	**[2]**

Marks [5]

	Month	In Quantity	Price $	Value $		Out Quantity	Balance	Price $	Value $	
(b)	LIFO									
	February	300	25	7500			300	25	7500	
						150	150	25	3750	
	March	120	27	3240			120	27	3240	
						210	60	25	1500	
	April	240	29	6960			240	29	6960	
						205	35	29	1015	
							60	25	1500	
									2515	**[2]**
							OR			**OR**
							95	25	2375	**[2]**

Marks [2]

	Month	In Quantity	Price $	Value $		Out Quantity	Balance	Price $	Value $	
(c)	AVCO									
	February	300	25	7500			300	25	7500	
						150	150	25	3750	
	March	120	27	3240			120	27	3240	
							270	25.89	6990	
						210	60	25.89	1553.33	
	April	240	29	6960			240	29	6960	
							300	28.38	8513.33	
						205	95	28.38	2695.89	**[2]**
	OR	660		17700		565			**OR**	
		-565		/660						
		95	×	26.82					2547.73	**[2]**

Marks [2]

As allowances would have to be made for use of calculators which offer different answers due to decimal calculations, please accept answers which approximate, and rounding either way. Applies to AVCO only.

(d)

	Quantity	Price $	Value $	Total $	
Sales	150	35	5250		**[1]**
	210	38	7980		**[1]**
	205.00	41	8405	21 635	**[1]**

	FIFO	LIFO	or LIFO	AVCO	or AVCO	
Sales	21 635	21 635	21 635	21 635	21 635	
C of S						
Purchases	17 700	17 700	17 700	17 700	17 700	**[1]**
C/stock	2 755	2 515	2 375	2 696	2 548	
	14 945	15 185	15 325	15 004	15 152	**[3]**
GP	6 690	6 450	6 310	6 631	6 483	**[3]**

Marks [10]

(e)

	30 April 2006		30 April 2007		
Current ratio	20700/6200		16100/8500		
	3.34	:1	1.89	:1	**[4]**
Liquid ratio	13200/6200		9300/8500		
	2.13	:1	1.09	:1	**[4]**

Marks [8]

(f) Both current and liquid ratios are near to ideal at 30 April 2007 however net loss of $11 400 in that year compared to net profit of $83 500 the previous year suggests that the business is going from good to bad. **[1]** **[2]**

Marks [3]

[Total: 30]

A3 (a)

	Household	Business	Factory	
Per unit	$	$	$	
Selling price	100	120	160	**[3]**
Variable costs				
Direct materials	40	50	50	
Direct labour	30	32	42	
Variable overheads	10	15	20	
Total variable costs	80	97	112	**[3]**

Subtract total variable costs from contribution.

OR

In total				
Sales	240 000	108 000	360 000	**[3]**
Total V costs	192 000	87 300	252 000	**[3]**
Total contribution	48 000	20 700	108 000	

To find unit contribution, divide by total number of units

(i)	Unit contribution	20	23	48	**[3]**
(ii)	As percentage of sales	20	19.17	30	**[3of]**

Marks [12]

(b) Fixed costs divided by unit contribution

	57 600	27 000	67 500	**[3]**
	20	23	48	**[3of]**
Units	2 880	1 174	1 406	**[3of]**
Value	$288 000	$140 870	$225 000	**[3of]**

Marks [12]

(c) Under absorption costing fixed costs are allocated amongst departments but the total fixed costs will not alter if a **[1]** department is closed – for example, the rent of a building remains the same even if part of it is unused. **[1]** If two departments were closed then the remaining one would have to take on board their fixed costs, in this case leading to an overall loss of $44 100. **[2]** As long as a department has a positive contribution and the business is making an overall profit then the department should not be closed. **[2]**

Marks [6]

[Total: 30]