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

9706/21	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	**1**	
Cost of sales				
Inventory (stock) at 1 May 2009	124		**1**	
Ordinary goods purchased (Purchases)	946		**1**	
	1070			
Inventory (stock) at 30 April 2010	219	851	**1**	
Gross Profit		749	**1of**	
Operating expenses:				
Wages	172		**1**	
Distribution expenses	48		**1**	
Business rates	50		**1**	
Insurance	28		**1**	
Advertising	79		**1**	
Depreciation				
Buildings (Property)	30		**2of**	see
Warehouse fittings	35		**3of**	below
Loss on sale	1	443	**1**	
Profit from operations (Operating profit)		306	**1of**	
Loan interest		12	**1**	
Profit for the year (Net profit)		294	**1of**	

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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	**1**	52	41	Marks
		296	156	for
Depreciation for year = (296 – 156) × 25% =	**2**		35	dep'n
Total depreciation for balance sheet			191	
Balance on Property (buildings) per trial balance		1490	320	
Add back per note (ii)	**1**	10		
		1500		
Depreciation for year = 1500 × 2%	**1**		30	
Total depreciation for balance sheet			350	

(b) Balance Sheet at 30 April 2010

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

[11]

[Total: 30]

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) $$\frac{\text{Current Assets - Stock}}{\text{Current Liabilities}} = \frac{24\,000}{30\,000} = 0.8:1$$

(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]

3 (a)

Marginal costing

		$	
Sales (365 × $34.00)		12 410	**2**
Cost of production			
Direct material 380 × (1.00 + 3.00 + 7.00)		4 180	**2**
Direct labour (380 ÷ 4 × 8)		760	**2**
Variable overhead (380 ÷ 4 ×14)		1 330	**2**
		6 270	
less stock increase (15 × 16.50)		248	**4**
		6 023	
add sales commission 365 × 1		365	**1**
		6 388	
Contribution		6 023	**1**
less fixed factory overhead	3 040		
less fixed admin expenses	1 250	4 290	**1**
Net profit		1 733	**1**

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Alternative methods

Marginal costing

			$	
Sales			12 410	**2**
Cost of sales				
Prod costs	6270	**W1**		**6**
Clos stock	248	**W2**	6 022	**4**
			6 388	
Commission			365	**1**
Contribution			6 023	**1**
Fixed costs			4 290	**1**
Net profit			1 733	**1**

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(b) Absorption costing

		$	
Sales		12 410	**1**
Cost of production			
Direct material		4 180	
Direct labour		760	**1**
Variable overhead		1 330	
Fixed overhead (380 × 3040 ÷ 380)		3 040	**2**
		9 310	
less closing stock (15 × (11 + 2 + 3.5 + 8))		368	**3**
Production cost of sales		8 943	
Gross profit		3 468	**1**
less sales commission	365		
Less fixed admin expenses	1 250	1 615	**1**
Net profit		1 853	**1**

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Absorption costing

			$	
Sales			12 410	**1**
Cost of sales				
Prod costs	9310	**W3**		**3**
Clos stock	368	**W4**	8 943	**3**
Gross Profit			3 468	**1**
Commission	365			
Admin	1250		1 615	**1**
Net profit			1 853	**1**

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(c) Reconciliation of profit

Absorption costing profit	1 853	
Marginal costing profit	1 733	
Difference	120	**1**

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:

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

[Total: 30]