

UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level and GCE Advanced Level

**MARK SCHEME for the May/June 2011 question paper
for the guidance of teachers**

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

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1 (a) (i) Purchases Ledger Control account

	\$		\$	
Cash	88 400	1	Balance b/d	16 600
Discount received	9 000	1	Purchases (bal fig)	95 600
Balance c/d	14 800	1		
	<u>112 200</u>			<u>112 200</u>
			Balance b/d	14 800

[5]

(ii) Sales Ledger Control account

	\$		\$	
Balance	18 200	1	Cash	103 160
Credit sales (bal fig)	128 900	10F	Sales returns	9 200
			Discount allowed	9 540
			Bad debts	8 200
			Balance c/d	<u>17 000</u>
	<u>147 100</u>			<u>147 100</u>
Balance b/d	17 000			

[7]

(b) Opening inventory	33 000	1		
Add: Purchases	<u>95 600</u>	10F		
Cost of goods available for sale	128 600			
Less: Cost of sales				
Sales to staff (10 750 1 × 100/125 1)	8 600			
Clearance sale at cost	29 700	1		
	<u>60 000</u>			
Normal sales (128 900 – 9 200 – 29 700)				
= Credit sales (90 000 × 2/3)				
(OR 85 933 – 6 133 – 19 800 = 60 000)				
TOTAL COST OF SALES	<u>98 300</u>			
Closing inventory	30 300	1		
Actual closing inventory	<u>20 600</u>	1		
Cost of goods destroyed in fire	9 700	10F		

[11]

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- (c) Income statement (trading account) for the year ended 30 April 2011

	\$	\$	
Revenue (sales) on credit	128 900		10F
Staff sales	<u>10 750</u>		1
	139 650		
Less sales returns	<u>9 200</u>		1 130 450
Less Cost of Sales			
Opening inventory	33 000		1
Purchases	<u>95 600</u>		10F
	128 600		
Less stock lost in fire	<u>9 700</u>		10F from (b)
Goods available for sale	118 900		
Less closing inventory	<u>20 600</u>		1 <u>98 300</u>
GROSS PROFIT		<u>32 150</u>	[7]

[Total: 30]

2 (a) (i)

	\$000	\$000	
Opening inventory	28		1
Purchases (240 + 100)	<u>340</u>		
	368		
Closing inventory	<u>40</u>		
Cost of goods sold		<u>328</u>	OF1 [4]

	\$000		
(ii) Sales	480		
LESS cost of goods sold	<u>328</u>		
Gross profit	152		
Less expenses	<u>120</u>		1
Profit for the year (net profit)	32		10F [2]

- (b) For (b) award 1 for numerator and 1 for denominator, all own figures
From (a) (i) and (ii) OR 2 for correct answer

(i) Mark up = $\frac{GP \times 100}{COGS} = \frac{152 \times 100}{328} = 46.34\%$

(ii) GP %age = $\frac{GP \times 100}{Turnover} = \frac{152 \times 100}{480} = 31.67\%$

(iii) Exp/sales = $\frac{Exp \times 100}{Turnover} = \frac{120 \times 100}{480} = 25\%$

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(iv) NP %age = $\frac{NP \times 100}{\text{Turnover}} = \frac{32 \times 100}{480} = 6.67\%$

(v) ROCE = $\frac{NP \times 100}{\text{CAP EMP}} = \frac{32 \times 100}{220} = 14.54\%$

(vi) ROIT = $\frac{\text{COGS}}{\text{Average inventory}} = \frac{328}{(40 + 28)/2} = 9.65 \text{ times}$

(vii) Liquid ratio = $\frac{\text{CA} - \text{inventory}}{\text{CL}} = \frac{78}{78} = 1:1$ [14]

(c)		Southern	Northern
1	Mark-up	40%	46.34%
2	Gross profit percentage	28.57%	31.67%
3	Expenses to sales	20%	25%
4	Net Profit percentage	8.57%	6.67%
5	Return on capital employed	18.00%	14.54%

One mark each for better or worse (poorer) than – maximum 5 marks

- Northern has a better mark up.
- Consequently a better gross profit percentage.
- Expenses to sales is worse for Northern.
- Net profit percentage for Northern is poorer.
- Northern's ROCE is poorer.

Must be clear that one is better than the other – do not accept higher, lower, greater, lesser, more, less.

Some candidates have treated the comparisons as if they were for the same business over 2 years – do not accept.

One mark each for each valid comment – maximum 5

Sales price is higher – higher mark up.

Administration and advertising costs are higher to sell a higher priced product.

Northern has a better GP percentage but the higher expenses incurred pull down the net profit advantage below Southern and contribute to a poorer ROCE.

The ROCE is poorer because Northern may have more non-current assets employed.

Any valid comment is acceptable provided it justifies the "better or worse" statement. A maximum of 1 mark for each statement and 1 mark for an attached comment. [10]

[Total: 30]

3 (a) (i)	P	T	O		
	\$	\$	\$		
Sales price	61	158	170		
Variable costs	<u>51</u>	<u>118</u>	<u>120</u>		
Contribution	10	40	50		
	1	1	1		[3]

(ii)	P	T	O		
	\$	\$	\$		
Fixed cost per unit	15	30	40		
Number of units	<u>2 000</u>	<u>1 600</u>	<u>1 000</u>		
	30 000	48 000	40 000	1 all 3	
Total fixed cost = \$118 000				1	[2]

(iii)	P	T	O		
	\$	\$	\$		
	30 000/10	48 000/40	40 000/50		
Units are OF using candidate's answer to (a) (i)					
BEP (units)	3 000	1 200	800	3OF	
Dollar OF = units × SP					
Dollars	183 000	189 600	136 000	3OF	[6]

(b)	P	T	O		
	\$	\$	\$		
Output	2 000	1 600	1 000		
BEP (from (a) (iii))	<u>3 000</u>	<u>1 200</u>	<u>800</u>		
	(1 000)	400	200	3OF	
	x	x	x		
Contribution per unit	<u>10</u>	<u>40</u>	<u>50</u>	3OF	
Profit (loss)	(10 000)	16 000	10 000	3OF	[9]

OR

Total contribution	20 000	64 000	50 000		3OF
(based on unit contribution)					
Less Fixed costs	<u>30 000</u>	<u>48 000</u>	<u>40 000</u>	3OF	
P/(L)	(10 000)	16 000	10 000	3OF	[9]

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(c) TOTAL FIXED COSTS WERE \$118000

	T	O	TOTAL	
	\$	\$		
	1	1		
Output	2 400	1 500		
	1	1		
Contribution	40	50		
TOTAL CONTRIBUTION	96 000	75 000	171 000	
LESS Fixed costs	118 000	1		
Add 25%	<u>29 500</u>	2	<u>147 500</u>	
TOTAL PROFIT			23 500	1
Old profit			<u>16 000</u>	1
<u>Increase in profit</u>			7 500	10F [10]

Alternative correct calculation for contribution

Sales	<u>379 200</u>	<u>255 000</u>
Direct materials	144 000	120 000
Direct labour	110 400	36 000
Variable overheads	<u>28 800</u>	<u>24 000</u>
	<u>283 200</u>	<u>180 000</u>
Total contribution	96 000	75 000

[Total: 30]