

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

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

[12]

| | | | |
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- (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]

| | | | |
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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 | | <u>2 000</u> | | (1) |
| Sales invoice | 4 000 | (1) | <u>(10 000)</u> | |
| Corrected profit for the year | | | <u>20 000</u> | (1of) [7] |

(b) Calculation of capital

| | | | |
|----------------|----------------|-------|-----|
| | \$ | | |
| Capital | 90 000 | | |
| Add net profit | <u>20 000</u> | (1of) | |
| | 110 000 | | |
| Less drawings | <u>2 000</u> | (1cf) | |
| Capital | <u>108 000</u> | | [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 | 16 000 | 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 | <u>24 000</u> | (1) |
| | <u>148 000</u> | <u>114 000</u> | | <u>148 000</u> | <u>114 000</u> |

[7]

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

| | \$ | | \$ |
|---------------------------------------------------------|--------------|-------|---------------|
| Net profit | | | 88 600 (1) |
| Add interest on drawings | | | |
| Grosz | 2 000 | (1) | |
| Kayal | <u>1 000</u> | (1) | <u>3 000</u> |
| | | | 91 600 |
| Less interest on capital | | | |
| Grosz | 6 200 | (1of) | |
| Kayal | <u>4 900</u> | (1of) | <u>11 100</u> |
| | | | 80 500 |
| Salary – Kayal | 10 500 | (1) | <u>70 000</u> |
| Share of profit (first 40%) | | | |
| Grosz | 14 000 | (1of) | |
| Kayal | 14 000 | (1of) | |
| Share of profit | | | |
| Grosz | 25 200 | (1of) | |
| Kayal | 16 800 | (1of) | <u>70 000</u> |
| | | | [10] |
| Combined share of profits in the correct ratios: | | | |
| Grosz 39 200 (2of) | | | |
| Kayal 30 800 (2of) | | | |
| | | | [Total: 30] |

| | | | |
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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 = 10 000 m **(1)**

Total required = 48 000 m **(1)** **[4]**

| | | | |
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(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 | $4000 \times 3.5 \text{ m}$ | = | 14 000 m |
| Bond | $4000 \times 4 \text{ m}$ | = | 16 000 m (1) |
| Cord | $2000 \times 5 \text{ m}$ | = | <u>10 000 m</u> (1) |
| Total material | | | <u>40 000 m</u> (1) |
| | | \$ | |
| Contribution Apex | $4000 \times \$10.50$ | | 42 000 (1of) |
| Contribution Bond | $4000 \times \$8.00$ | | 32 000 (1of) |
| Contribution Cord | $2000 \times \$12.50$ | | <u>25 000</u> (1of) |
| Total contribution | | | 99 000 (1of) |
| Fixed overheads | | | <u>46 200</u> (1) |
| Profit for the year | | | <u>52 800</u> (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]