

MARK SCHEME for the May/June 2015 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.

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1 (a)

Vikran
Manufacturing account for the year ended 30 June 2014

	\$		\$
Raw materials			
Inventory at 1 July 2013	39 000)*	
Purchases	162 000		
Purchase returns	(1 200)		
Carriage inwards	<u>4 200</u>		
	204 000		
Inventory at 30 June 2014	<u>(46 000)</u>)*(1) both	158 000 (1) CF
Manufacturing wages			<u>259 100</u> (1)
Prime cost (<i>must be labelled</i>)			417 100 (1) OF
Overheads			
Factory supervision salaries	12 400)	
General factory expenses	8 100) (1)	
Indirect factory wages	36 800)	
Heat and light $(\$5400 + \$600 (1)) \times 85\%$	5 100	(1) OF	
Insurance $(\$12\,000 - \$4\,000 (1)) \times 80\%$	6 400	(1) OF	
Rent and rates $\$42\,000 \times 85\%$	35 700	(1) CF	
Depreciation plant and machinery $(\$270\,000 - \$90\,000) \times 15\%$	<u>27 000</u>	(1) CF	<u>131 500</u>
			548 600
Work in progress at 1 July 2013	48 000	(1)	
Work in progress at 30 June 2014	<u>54 000</u>	(1)	<u>(6 000)</u>
Production cost of finished goods (<i>must be labelled</i>)			<u>542 600</u> (1) OF

[14]

(b)

Vikran
Income statement for the year ended 30 June 2014

	\$		\$
Sales revenue			768 500
Returns inwards			<u>(1 800)</u>
			766 700 (1) CF
Cost of sales			
Opening inventory finished goods	57 000	(1)	
Cost of production	542 600	(1) OF	
Purchase finished goods	<u>2 100</u>	(1)	
	601 700		
Closing inventory finished goods	<u>(52 000)</u>	(1)	<u>549 700</u>
Gross profit (<i>must be labelled</i>)			217 000 (1) OF
Provision for doubtful debts			<u>610</u> (1)
			217 610
Deduct: expenses			
Office salaries	37 300	(1)	
Heat and light	900)	
Rent and rates	6 300)(1)	
Insurance	1 600)	
Depreciation office equipment W1	7 800	(1)	
Bad debt written off	<u>1 800</u>	(1)	<u>55 700</u>
Profit for the year (<i>must be labelled</i>)			<u>161 910</u> (1) OF

Workings

W1 Depreciation $(\$90\,000 - \$38\,000) \times 15\% = \$7800$

[12]

- (c) Depreciation represents that part of the cost of an asset that is consumed during the accounting period (1). This follows the matching (accruals) concept (1). The value of an asset decreases over time due to, for example, wear and tear, obsolescence (**max 1 mark for examples**). Depreciating the value of a non-current asset avoids overstating the net assets of the business (1) and ensures that the statement of financial position shows a true and fair view (1).

[Max 4]

[Total: 30]

2 (a)

Ratio	Formula	Calculation
Inventory turnover	(Average inventory / cost of sales) × 365 (1)	$\frac{(50\,000 + 65\,000)/2}{50\,000 + 280\,000 - 65\,000} \times 365 = 79.2 \text{ days (1 OF)}$
Trade receivables turnover	Trade receivables / credit revenue × 365 (1)	$\frac{45\,000}{425\,000} \times 365 = 38.6 \text{ days (1)}$
Trade payables turnover	Trade payables / credit purchases × 365 (1)	$\frac{22\,000}{280\,000} \times 365 = 28.7 \text{ days (1)}$
Non-current asset turnover	Revenue / Non-current assets at NBV (1)	$\frac{425\,000}{350\,000} = 1.21 \text{ times (1)}$
Current ratio	Current assets / current liabilities (1)	$\frac{110\,000}{40\,000} = 2.75 : 1 (1)$

[13]

- (b) (i) Inventory turnover is slow. This suggests low sales which impacts on profit and cash flow. There will be higher holding costs including the risk of obsolescence. [3]
- (ii) Customers are paying after the credit terms. This suggests poor credit control procedures. Cash flow will be slower and there will be a higher risk of bad debts. [3]
- (iii) Suppliers are being paid early. This adversely affects cash flow especially as suppliers are being paid before customers pay. It is likely however that prompt payment cash settlement discounts will be available. [1 mark for valid point to max 3 in each case] [3]

(c) Partnership:

Advantages:

- Possibly more capital
- Shared risk and workload

Disadvantages:

- Unlimited liability
- Need to earn more profit than a sole trader to support partner.
- Possible disputes between partners.

[1 mark per valid point to max of 4]

Private limited company:

Advantages:

- Limited liability
- Shared workload

Disadvantages:

- Possible disputes between shareholders
- Not all shareholders may take part in running the business

[1 mark per valid point to max of 4]

[8]

[Total: 30]

3 (a) $\$14.00 - (3.20 + 2.40) (1) = \$8.40 (1) \text{ OF}$

[2]

(b) Marginal cost

	February		March	
	\$	\$	\$	\$
Sales		182 000)		238 000 (1) both
Opening inventory	-		11 200	
Production cost	84 000		84 000	(1)
Closing inventory	<u>(11 200)</u> (1)	<u>72 800</u> (1) OF	<u>-</u>	<u>95 200</u> (1) OF
Contribution		109 200 (1) OF		142 800 (1) OF
Fixed costs		<u>88 000</u>		<u>88 000</u>
Profit		<u>21 200</u> (1) OF		<u>54 800</u> (1) OF

[9]

(c) Absorption cost

Overhead absorption rate = $\$88\,000 / 16\,000 = \5.50 per unit (1)

[1]

(d) Absorption cost

	February		March	
	\$	\$	\$	\$
Sales		182 000		238 000
Opening inventory	–		22 200	
Production cost	166 500		166 500	(3)
Closing inventory	<u>(22 200)</u> (2)	<u>144 300</u> (1) OF	<u>–</u>	<u>188 700</u> (1) OF
		37 700		49 300
Under absorption		<u>5 500</u> (1) OF		<u>5 500</u> (1) OF
Profit		<u>32 200</u> (1) OF		<u>43 800</u> (1) OF

3 marks split 22 200 (1)of, 166 500 (1) OF and 166 500 (1) OF.

Closing inventory 2000 (1) × 11.10 = 22 200 (1) OF. [11]

- (e) Profit per marginal costing \$21 200 (1) OF
 Closing inventory 2000 × \$5.50 \$11 000 (1)
 Profit per absorption costing \$32 200 (1) OF [3]

- (f) Using marginal costing fixed costs are written off in the month they are incurred (1)
 Using absorption costing they are treated as part-off the cost of inventory and carried forward (1) to the next month. (1)
 Therefore closing inventory using absorption costing will be valued (1) at a higher figure (1) which will increase the profit for the month.

[Max 4]
 [4]

[Total: 30 marks]