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 ACOUNTING

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	**1**
Discount received	9 000	**1**	Purchases (bal fig)	95 600	**1OF**
Balance c/d	14 800	**1**			
	112 200			112 200	
			Balance b/d	14 800	[5]

(ii) Sales Ledger Control account

	$			$	
Balance	18 200	**1**	Cash	103 160	**1**
Credit sales (bal fig)	128 900	**1OF**	Sales returns	9 200	**1**
			Discount allowed	9 540	**1**
			Bad debts	8 200	**1**
			Balance c/d	17 000	**1**
	147 100			147 100	
Balance b/d	17 000				[7]

(b)

Opening inventory		33 000	**1**
Add: Purchases		95 600	**1OF**
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**	
1 1 1			
Normal sales (128 900 – 9 200 – 29 700)	60 000		
= Credit sales (90 000 × 2/3)			
(OR 85 933 – 6 133 – 19 800 = 60 000)			
TOTAL COST OF SALES		98 300	
Closing inventory		30 300	**1**
Actual closing inventory		20 600	**1**
Cost of goods destroyed in fire		9 700	**1OF** [11]

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

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

[Total: 30]

2 (a) (i)

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

(ii)

	$000		
Sales	480		
LESS cost of goods sold	328		
Gross profit	152		
Less expenses	120	**1**	
Profit for the year (net profit)	32	**1OF**	[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 = $\frac{\text{NP} \times 100}{\text{Turnover}} = \frac{32 \times 100}{480} =$ 6.67%

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

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

1. Northern has a better mark up.
2. Consequently a better gross profit percentage.
3. Expenses to sales is worse for Northern.
4. Net profit percentage for Northern is poorer.
5. 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]

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3 (a) (i)

	P	T	O	
	$	$	$	
Sales price	61	158	170	
Variable costs	51	118	120	
Contribution	10	40	50	
	1	**1**	**1**	[3]

(ii)

	P	T	O	
	$	$	$	
Fixed cost per unit	15	30	40	
Number of units	2 000	1 600	1 000	
	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))**	3 000	1 200	800	
	(1 000)	400	200	**3OF**
	x	x	x	
Contribution per unit	10	40	50	**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	30 000	48 000	40 000	**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%	29 500	**2**		147 500		
TOTAL PROFIT				23 500	**1**	
Old profit				16 000	**1**	
Increase in profit				7 500	**1OF**	[10]

Alternative correct calculation for contribution

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

[Total: 30]

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