CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 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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Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 (a)

Ocean Fishing Club Shop
Trading Account for the year ended 31 March 2014

	$		$	
Sales			7 690	
Less cost of sales				
Inventory on 1/4/2013	975			
Add purchases	3 198	**(1)**		
	4 173			
Less inventory on 31/3/2014	859		3 314	
Gross profit			4 376	
Less				
Wages	3 615	**(1)**		
Depreciation	110	**(1)**	3 725	
Profit for the year	651	**(1of)**		**[4]**

(b)

Ocean Fishing Club
Income and Expenditure Account for the year ended 31 March 2014

	$		$	
Shop profits	651			
Subscriptions	7 000	**(1)**		
Family day	2 300			
Interest	300	**(1)**	10 251	
Less expenses				
Administration expenses	2 790			
Repairs	2 450	**(1)**		
Depreciation	1 869	**(3)**	7 109	
Surplus			3 142	

Depreciation 1029 **(1)** + 840 **(1)** = 1869 **(1of)** **[6]**

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(c)

Ocean Fishing Club
Statement of Financial Position at 31 March 2014

		Cost		Dep'n		NBV	
		$		$		$	
Non-current assets							
Equipment		15 400	**(1)**	4 809	**(1of)**	10 591	
Shop fittings		750		110		640	
		16 150		4 919		11 231	**(1of)**
Current assets							
Inventory		859					
Subscription in arrears		200	**(1)**				
Bank – current account		876					
Bank – deposit account		13 300	**(1of)**				
				15 235			
Current liabilities							
Trade payables		784					
Other payables	370+195	565					
Subscriptions in advance		720	**(1)**	2 069		13 166	
						24 397	
Accumulated Fund	**(1)**			19 805	**(1)**		
Add surplus	**(1)**			3 142	**(1of)**	22 947	
Donations fund						1 450	**(1)**
						24 397	

[11]

(d) **1** Use funds from the deposit account

2 Bank loan

3 Ask members for donations

4 Fund raising events

1 mark per valid suggestion (3) **[3]**

(e) Answers will be based on methods selected. For those above:

1 Advantage: Immediate funds available.
Disadvantage: No cash reserves for the club. Loss of interest.

2 Advantage: Funds available from bank for full amount.
Disadvantage: Interest will have to be paid. May require security.

3 Advantage: No interest payable.
Disadvantage: May not raise enough money, so other / additional method will be needed.

4 Advantage: No interest payable.
Disadvantage: May not raise enough money, so other / additional method will be needed.

1 mark for advantage and 1 for disadvantage (max. 6) **[6]**

[Total: 30]

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2 **(a)** Non-current assets generate profit for the business **(1)**. Depreciation is a fall in value of a non-current asset **(1)** due to wear and tear and other factors by making a charge against income generated **(1)** reducing the profit and thereby applying the prudence concept **(1)**.

1 mark per valid point (max. 3) **[3]**

(b) **(i)** Wear and tear **(1)**

(ii) Obsolescence **(1)**

(iii) Technological innovation **(1)** **[3]**

(c) Rates of depreciation

Buildings = $40 000 / $2 000 000 = 2% **(1)**
Machinery = $400 000 / $2 000 000 = 20% **(1)**
Motor vehicles = $100 / [$(700 – 300 + 100)] = 20% **(2)**
(1) **(1of)** **[4]**

(d) Assets suffer wear and tear, etc. and lose their value at different rates **(1)**. This might depend on the degree of use of the asset. Vehicles tend to lose more value in the early years of use **(1)**; hence the reducing balance method is more appropriate. Buildings tend to lose value **(1)** more consistently over their lifetime; therefore, the straight line method tends to be more appropriate **(1)**. **[4]**

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(e)

	Buildings	Machinery	Motor vehicles	Total
	$ 000	$ 000	$ 000	$ 000
COST				
Balance at 31 May 2013	2000	2000	700	4700
Additions	1000**(1)**	720**(1)**	200**(1)**	1920
Disposals	–	(160)**(1)**	(100)**(1)**	(260)
Balance at 31 May 2014	3000	2560	800	6360**(1of)**
DEPRECIATION				
Balance at 31 May 2013	120	800	300	1220
Charge for the year	60**(1)**	512**(1)**	108**(1)**	680
Disposals	–	(64)**(1)**	(40)**(1)**	(104)
Balance at 31 May 2014	180	1248	368	1796**(1of)**
NBV at 31 May 2014	2820**(1)**	1312**(1)**	432**(1)**	4564**(1)**
NBV at 31 May 2013	1880	1200	400	3480

[16]

[Total: 30]

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3 (a) Advantage: Easier to calculate **(1)** by avoiding the necessity to allocate and apportion costs into departments. **(1)**

Disadvantage: Where different products spend differing amounts of time in departments **(1)** there is a danger that product costs will be under or overstated. **(1)**

[4]

(b) $367 200 / 162 000 direct labour hours = $2.27 per direct labour hour **(1)** **[1]**

(c)

		Total	Cutting	Sewing	Finishing	Stores	Maintenance	
Indirect wages	**(1)**	185 400	27 810	46 350	27 810	37 080	46 350	
Rent and rates	**(1)**	38 500	9 167	11 000	5 500	5 500	7 333	
Power	**(1)**	32 600	13 873	17 340	1 387			
Light and heat	**(1)**	18 800	4 476	5 371	2 686	2 686	3 581	
Machine depreciation	**(1)**	73 700	37 954	28 244	5 296		2 206	
Buildings insurance	**(1)**	18 200	4 333	5 200	2 600	2 600	3 467	
		367 200	97 613	113 505	45 279	47 866	62 937	
Stores		**(1of)**	35 900	8 377	1 196	(47 866)	**(1of)**	2 393
			133 513	121 882	46 475	–	65 330	
Maintenance		**(1of)**	27 800	34 750	2 780		(65 330)	**(1of)**
			161 313	156 632	49 255		–	

[10]

(d) Cutting: $161 313 / 84 000 direct labour hours **(1)** = $1.92 per direct labour hour **(1of)**

Sewing: $156 632 / 50 000 machine hours **(1)** = $3.13 per machine hour **(1of)**

Finishing: $49 255 / 56 000 direct labour hours **(1)** = $0.88 per direct labour hour **(1of)** **[6]**

(e)

	Cutting	Sewing	Finishing
Actual overheads	168 180	146 320	51 870
Absorbed			
$1.92 x 85 200	163 584		
$3.13 x 52 450		164 169	
$0.88 x 58 140			51 163
	$4 596 **(1of)**	$17 849 **(1of)**	$707 **(1of)**
	Under absorbed **(1of)**	Over absorbed **(1of)**	Under absorbed **(1of)**

[6]

(f) Manufacturing costs **(1)**
Selling costs **(1)**
Distribution costs **(1)**
Administration costs **(1)**
Finance charges and other costs **(1)**

1 mark for each functional group (max. 3) **[3]**

[Total: 30]

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