CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 series

9706 ACCOUNTING

9706/23 Paper 2 (Structured Questions – Core), maximum raw mark 90

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1 (a)

Dr		Cash Account $		Cr $	
Bal b/d	**(1)**	3 270	Van rental	2 400	}
			Drivers wages	4 748	}
Receipts customers	**(1OF)**	35 680	Rent for garage	1 600	} **(1) for all 3**
Van disposal	**(1)**	1 300	Cash stolen	430	**(1)**
			Sundry expenses	2 972	
			Drawings	11 450	
			Fuel expenses	14 301	**(1)**
			Bal c/d	2 349	
		40 250		40 250	
Bal b/d	**(1OF)**	2 349			

[7]

(b) Calculations for revenue figure for the year ended 30 June 2014

	$	
Cash received from Trade debtors	35 680	**(1)**
Add debtors at 30 June 2012	2 863	**(1)**
Add bad debts written-off	1 648	**(1)**
	40 191	
Less debtors at 1st July 2011	3 766	**(1)**
Sales	36 425	**(1) (OF)**

[5]

(c)

Asif Income Statement
Year ended 30 June 2014

	$	$	
Sales (from part b)		36 425	**(1OF)**
Less expenses			
Cash stolen	430		**(1)**
Van rental	2 400		
Wages (4 748(1) + 200 (1))	4 948		**(2)**
Rental of garage (1 600(1) – 400(1))	1 200		**(2)**
Sundry expenses	2 972		
Loss on disposal (6 200(1) – 4 650(1) – 1 300(1))	250		**(3)**
Fuel expenses	14 301		**(1)**
Bad debts	1 648		**(1)**
		28 149	
Profit for the year (must be labelled)		8 276	**(1OF)**

[12]

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(d) Improved cash flow **(1 + 1 for development)**
Reduction in bad debts **(1 + 1 for development)** **[4]**

(e) Net profit margin **(1)** **[2]**
Return on capital employed **(1)**
Expenses: revenue **(1)**
Max 2

[Total: 30]

2 (a)

Lance
Statement of financial position at 30 November 2014

	$000	$000	$000
Non-current assets at cost			500 **(1)**
Accumulated depreciation			(200)
			300 **(1)**
Current assets			
Inventory		80	
Trade receivables		50	
Cash		10	
		140 **(1)**	
Current liabilities			
Trade payables	35		
Other payables	20		
Bank overdraft	25	80 **(1)**	60 **(1OF)**
Non-current liabilities			
Long term loan			(40) **(1)**
			320
Financed by:			
Opening capital			310
Add: net profit			30 **(1)**
			340
Less: drawings			(20) **(1)**
			320

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Alternative presentation (IAS format) accepted

Lance
Statement of financial position at 30 November 2014

	$000	$000
Non-current assets	500 **(1)**	
Accumulated depreciation	200	
		300 **(1)**
Current assets		
Inventory	80	
Trade receivables	50	
Cash	10	140 **(1)**
Total assets		440
Capital account		
Opening capital	310	
Add: net profit	30 **(1)**	
	340	
Less: drawings	20 **(1)**	320
Non-current liabilities		
Long-term loan		40 **(1)**
Current liabilities		
Trade payables	35	
Other payables	20	
Bank overdraft	25	80 **(1)**
Total capital and liabilities		440 **(1)** **[8]**

(b)

Ratio	Formula	Calculation
Current	Current assets / current liabilities **(1)**	140 / 80 = 1.75:1 **(1OF)**
Liquid (acid test)	(Current assets – inventory) / Current liabilities **(1)**	(140 – 80) / 80 = 0.75:1 **(1OF)**

[4]

(c) Current ratio improved in 2013 **(1)** but became worse in 2014 **(1)**. This should be a concern to Lance as it may indicate worsening liquidity **(1)**, especially with the bank overdraft **(1)**.

This is shown by the liquid (acid test) ratio which has worsened each year **(1)**. Lance has a large amount of inventory which indicates cash may be tied up **(1)**. Lance may have difficulty paying the interest on the loan, overdraft. **(1)** and suppliers **(1)**. **[8]**

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(d) Cash budget for the month of December

	$		
Receipts			
Loan	25 000	**(1)**	
Cash sales (75 000 (1) / 3 (1))	22 500	**(2)**	
Received from trade receivables	50 000	**(1)**	
	97 500		
Payments			
Other expenses	12 500		
Cash purchases	18 000	**(1)**	
Payments to trade payables	35 000	**(2)**	
Loan interest	125	**(1)**	
	65 625		
Net cash in/outflow	31 875		
Opening balance	(15 000)	**(1)**	
Closing balance	16 875	**(1)OF**	**[10]**

[Total: 30]

3 **(a)** Contribution = £17.00 – ($4.50 + $6.00 + $2.50) = $4.00
Fixed costs = $324 000 / 12 = $27 000 per month.
Breakeven = $27 000 **(1)** / $4.00 **(1)** = 6750 units **[2]**

(b) Absorption costing working:
Unit cost = $4.50 + $6.00 + $2.50 + $(27 000 / 10 000) = $15.70

	Jan $		Feb $		
Sales (@ $17)	119 000		221 000		
COGS (@ $15.70)	109 900	**(1)**	204 100	**(1)**	
Profit	9 100	**(1)**	16 900	**(1)**	**[4]**

(c) Marginal costing

	Jan $		Feb $		
Sales	119 000		221 000		
Variable costs (@ $13)	91 000		169 000		
Contribution	28 000	**(1OF)**	52 000	**(1OF)**	
Fixed costs	27 000		27 000		
Profit	1 000	**(1OF)**	25 000	**(2OF)**	**[4]**

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(d) Reconciliation

	Jan	Feb
	$	$
Absorption costing profit	9 100	16 900
(Inc) / Dec in inventories		
(3 000 @ $2.70)	(8 100) **(1OF)**	
3 000 @ $2.70		8 100 **(1OF)**
Marginal costing profit	1 000 **(1OF)**	25 000 **(1OF)**

[4]

(e) Absorption costing will produce a different profit figure to marginal costing whenever opening and closing inventory differ. **(1)**

Absorption costing values inventory at total production cost including a portion of fixed costs. **(1)**

Marginal costing values inventory at variable cost only, treating fixed costs as period costs. **(1)**

When closing inventory is higher than opening inventory, absorption costing will produce the higher profit. **(1)** When closing inventory is lower than opening inventory, marginal costing will produce the higher profit. **(1) (Max 4)** **[4]**

(f) Working:
Fixed cost = ($324 000 + $60 000) / 12 = $32 000 pm / 11 000 units = $2.91 **(1OF)**
Total unit cost = $2.91 + $13.00 **(1)** = $15.91 **(1OF)**

Sales ($17 × 7 700)	130 900 **(1)**
Cost of sales ($15.91 **(3)** × 7 700)	122 507
Profit	8 393 **(1OF)**

[5]

(g) Situations where marginal costing is useful:
1 Make or buy decisions. **(1)**
2 Product mix in limiting factor decisions. **(1)**
3 Whether to discontinue a product. **(1)**
4 Acceptance of special orders. **(1)**
Max 3 marks **[3]**

(h) Marginal costing should only be used for short term decision making **(1)**
However, it is necessary to split all costs into fixed and variable **(1)** which may be difficult **(1)**
Difficult to use if more than one product is sold **(1)** as it is difficult to split fixed overheads over several products **(1)**
Max 4 marks **[4]**

[Total: 30]

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