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CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/21 Paper 2 (Structured Questions – Core), maximum raw mark 90

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1 (a)

Patel's Income statement for the year ended 31 December 2014

	$	$	
Sales: Credit (156 420 + 13 690 – 14 670)		155 440	**(1)OF**
Cash (20 700 + 4800 – 800 + 950)		25 650	**(2)OF**
		181 090	
Less cost of sales			
Inventory at 1 Jan 2014	21 750		
Purchases (109 620 + 14 900 – 16 750)	107 770	**(2)OF 1 both creds l o/f total**	
Less goods for own use	(2 600)	**(1)**	
	126 920		
Less inventory at 31 December 2014	(22 450)	104 470	
Gross profit		76 620	**(1)OF**
Less expenses			
Wages (22 670 + 1400 – 1200)	22 870	**(1)**	
Rent	16 000		
Electricity	8 650		
General expenses	4 750		
Loss on motor vehicle (2880 – 1500)	1 380	**(1)**	
Depreciation on: motor vehicles (7600 – 2880**(1)** + 16 400) × 0.2	4 224	**(1)OF**	
fixtures and fittings	1 500	**(1)**	
Provision for doubtful debts (13 690 – 750) × 0.05	647	**(1)**	
Bad debts written off	750	**(1)**	(60 771)
Profit for the year		15 849	**(1)OF**

[15]

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Patel's Statement of financial position at 31 December 2014

	$	$	$	
Non-current assets				
Land and buildings			50 000	**(1) for L&b & FF**
Motor vehicles (7600 – 2880**(1)** + 16400 – 4224**(1)**			16 896	
Fixtures and fittings			4 500	
			71 396	
Current assets				
Inventory			22 450	
Trade receivables (13 690 – 750 – 647)			12 293	**(1)OF**
Rent in advance (1000 + 19 000 – 16 000)			4 000	**(1)**
Cash at bank			14 510	
Cash			950	
			54 203	
Total assets			125 599	
Capital and liabilities				
Opening capital	(W1)		100 850	**(1)**
Add profit for the year			15 849	
			116 699	
Less drawings (4800 **(1)** + 2600 **(1)**)			7 400	
			109 299	
Current liabilities				
Trade payables			14 900	
Wages			1 400	
			16 300	**(1)C/F**
Total capital and liabilities			125 599	

Working notes

W1

Capital at 1 January 2013			
Bank	16 980		
Land and buildings	50 000	Trade payables	16 750
Fixtures and fittings	6 000	Wages	1 200
Motor vehicles	7 600		
Trade receivables	14 670		
Inventory	21 750		
Cash	800		
Rent	1 000		
	118 800		17 950
Capital	**100 850**		

[9]

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(c) Five year loan

Advantage:
- Fixed rate of interest
- Helps plan cash flow

Disadvantage:
- May pay more interest if rates fall
- Interest payable for whole period
- May be secured on assets

Bank overdraft

Advantage
- No interest charged if not used
- Can be paid off whenever you like

Disadvantage
- Higher rate of interest than loan
- Can be called in by the bank at any time

1 mark for each advantage and disadvantage.
1 mark x 2 for development.

[Total: 30]

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2 (a) Mark up expresses the gross profit **(1)** as a percentage of cost price of the goods sold **(1).** **[2]**

(b) Trading section of income statement for the year ended 31 March 2014.

	$		$	
Revenue	100 000		420 000	
Cost of sales				
Opening inventory	40 000	**(1)**		
Purchases	340 000	**(1)OF**		
Closing inventory*	(80 000)	**(4)**	300 000	**(1)**
Gross profit **(1)**			120 000	**(1)OF**

[9]

[*300000 **(1)** / 5 **(1)** = 60000 × 2 **(1)** – 40000 **(1)]**

(c) (Gross profit / Revenue) **(1) both** × 100 **(1)** **[2]**

(d) (i) It shows the efficiency of assets to generate income **(1).** It shows how much every dollar of non- current assets **(1)** generates in sales revenue **(1).** A higher value indicates better utilisation of resources **(1).** **[4]**

(ii)

Ratio	Formula	Calculation
Non-current asset turnover	Sales revenue / non-current asset NRV(1)	$\frac{420\,000}{550\,000}$ **(1)** = $0.76 **(1)** times

[3]

(e) **1** Avoid overstating trade receivables
2 Be prudent.
3 Anticipate that some customers may not pay and become bad debts.
4 Application of matching principle **[Max 3]**
[3]

	$		$
Income statement	250 **(1)**	Bal b/d	1650 **(1)**
Bal c/d	1400		
	1650		1650
		Bal c/d	1400 **(1)**

(f) Provision for doubtful debts account

[3]

(g) (i) $250 is to be added below gross profit in the income statement (**1**) as a decrease in the provision for doubtful debts. **(1)** **[2]**

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(ii) $1400 is to be shown as a deduction of trade receivables **(1)** in current assets **(1)** in the statement of financial position. **[2]**

[Total: 30]

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3 (a) Variable costs labour: $233 000 – $65 000 = $168 000 / 70 000 units = $2.40 per unit
Variable costs overheads: $190 000 – $36 000 = $154 000 / 70 000 units = $2.20 per unit

Selling price		12.00	
Materials ($259 000 / 70 000)	3.70 **(1)**		
Labour	2.40 **(1)**		
Overheads	2.20 **(1)**	8.30	
Contribution		$3.70 **(1)**	**[4]**

(b) Variable costs labour: $372 000 – $48 000 = $324 000 / 90 000 units = $3.60 per unit
Variable costs overheads: $207 000 – $45 000 = $162 000 / 90 000 units = $1.80 per unit

Selling price		8.00	
Materials ($180 000 / 90 000)	2.00 **(1)**		
Labour	3.60 **(1)**		
Overheads	1.80 **(1)**	7.40	
Contribution		$0.60 **(1)**	**[4]**

(c) Breakeven point = ($48 000 + $45 000 **(1)**) / $0.60 **(1)OF** = 155 000 units **[2]**

(d) Breakeven point = 155 000 units **(1)OF** × $8 = $1 240 000 **(1)OF** **[2]**

(e) Margin of safety = (90 000 – 155 000) **(1)OF** × $8 = $(520 000) **(1)OF** **[2]**

(f) Proposal 1

Revised sales of Zed: 90 000 × 95% = 85 500 units
Revised contribution of Zed: $0.60 + $1.20 = $1.80

	$		
Contribution Zed (85 500 **(1)** × $1.80 **(1)**)	153 900		
Fixed overheads ($48 000 + $45 000)	93 000	**(1)**	
Revised profit Zed	60 900	**(1)**	
Profit Wye	158 000		
Revised profit	218 900	**(1)**	**[5]**

(g) Proposal 2

	$		
Original profit Wye	158 000	**(1)**	
Additional contribution (70 000 × 40%) × $3.70	103 600	**(1)**	
Less: Additional fixed costs – redundancy	(20 000)	**(1)**	
Zed overheads	(45 000)	**(1)**	
Revised profit	196 600	**(1)OF**	**[5]**

Accept revised profit of $148 600 if existing fixed costs of $48 000 are not stated.

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(h) Company should choose proposal 1 / continue producing Zed **(1)OF**

Reasons

- Year 1 profit is higher by $22 300 **(1)**
- Subsequent years profits are higher by additional $20 000 **(1)** due to no further redundancy costs **(1)**
- But may lose customers for Wye due to not being able to supply Zed **(1)**
- May encounter bad publicity because of the redundancies **(1)**
- Forecast 40% increase in Wye sales may not be accurate **(1)**

[max 5 for reasons and 1 for decistion] **[6]**

[Total: 30]

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