

MARK SCHEME for the May/June 2008 question paper

9706/02	9706 ACCOUNTING Paper 2 (Structured Questions (Core)), maximum raw mark 90
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All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

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Page 2	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

1 (a) Trading and Profit and Loss account for the year ended 30 April 2008

	\$	\$	\$	
Sales			243 000	
Less returns			<u>2 040</u>	
			240 960	
Less cost of sales				
Stock at 1 May 2007		13 500		
Purchases	184 000			
Less returns	<u>1 980</u>			(1)
	182 020			
Add carriage in	<u>350</u>	<u>182 370</u>		(1)
		195 870		
Less stock at 30 April 2008		<u>15 100</u>	<u>180 770</u>	
Gross profit			60 190	
Discount received			1 300	
Rent receivable	(2420 + 220)		2 640	(1)
Doubtful debts provision	(500 – 3% × (9000-200))		<u>236</u>	(1)
			64 366	
Bad debts written off		200		
Carriage out		800		
Discount allowed		1 800		
Electricity	(2100 – 40)	2 060		(1)
General expenses	(9340 + 50)	9 390		(1)
Depreciation on machinery	((52000 – 15600) × 40%)	14 560		(1)
Interest due on loan	((11% × 60000)/2)	<u>3 300</u>	<u>32 110</u>	(1)
Net profit			<u><u>32 256</u></u>	[8]

Page 3	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

(b) Balance Sheet at 30 April 2008

	\$	\$	\$	
Fixed Assets			Net Book Value	
Premises			250 000	
Machinery			<u>21 840</u>	(1)of if < 36 400
			271 840	
Current Assets				
Stock	15 100			
Debtors	8 800			must be 8800 and
Less DD Provision	264	8 536		(1)of if DDP < 500
Cash		990		
Prepayment		40		(1)
Rent receivable		<u>220</u>	24 886	(1)
Amounts due within one year				
Creditors		11 460		
Bank		8 260		(1)
Accrual		50		(1)
Interest due		<u>3 300</u>	<u>23 070</u>	(1)
Net current assets			<u>1 816</u>	(1)of
			273 656	
Amount due over one year				
Long-term loan (11%)			<u>60 000</u>	
			<u>213 656</u>	
Proprietor's interest				
Capital at 1 May 2007			200 000	(1)of
Add net profit			<u>32 256</u>	(1)
			232 256	
less drawings			<u>18 600</u>	(1)
			<u>213 656</u>	

- (c) (i) Current ratio = 24886/23070 1.08:1 (1)of
- (ii) Liquid ratio = 9786/23070 0.42:1 (1)of
- (iii) Rate of stock turnover = 180770/14300 12.64 times (1)of
- (iv) Gross profit as a percentage of sales 28.87 days 24.98% (1)of
- (v) Net profit as a percentage of sales 13.39% (1)of

(iv) and (v) denominator must be net sales i.e. not 243 000

Need suffixes.

If correct working shown disregard request for decimal places

[5]

Page 4	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

(d) (i) Ratios are used to compare a firm's performance with another year, or with another business of the same type. [2]

(ii) Interested parties might be:

Bank manager	Directors	Competitors
Customs and excise	Creditors	Investors/Shareholders
Employees	Debtors	NOT Stakeholders
The media (Newspapers, TV etc)		

Allow ONE group only of members of the firm

Etc. One mark each to a maximum of [4]

[Total: 30]

2A

	\$	\$	
	–	+	
Profit and loss balance	100 000		
Capital contribution	80 000		(1)
Sales returns	no effect		
Depreciation (240 000 + 75 000) × 40%	126 000		(2)
Interest accrued	10 000		(1)
Drawings		50 000	(1)
Stock	9 000		(1)
Goods for own use		11 000	(1)
Loan		20 000	(1)
Equipment repairs	25 000		(1)
Stock purchase	<u>22 000</u>		(1)
	372 000	<u>81 000</u>	
	<u>–81 000</u>		
	<u>291 000</u>		(1) + (1) of

[12]

2 marks for \$291 000, 1 of provided EITHER (a) no entry for sales returns or (b) entry for sales/purchases returns in BOTH columns

B (a)

Sales Ledger Control Account

Balance b/d	340 600		Balance b/d	1 960	
Credit sales	295 000	(1)	Sales returns	6 480	(1)
Bank	3600		Bank	238 600	(1)
Discount allowed	200	(2)	Discount allowed	3 500	(1)
			Contra	5 000	(1)
			Bad debt	2 300	(1)
Balance c/d	<u>8 340</u>	(1)	Balance c/d	<u>389 900</u>	(1) of
					(no aliens)
	<u>647 740</u>			<u>647 740</u>	
Balance b/d	389 900	(1)	Balance b/d	8 340	(1)

If Bank shown net 235 000 on credit side award (1) mark

If Discount allowed shown net 3300 on credit side award (3) marks

Do **not** award full marks for correct balances b/d as Bank may be shown as 3800 on debit side. [12]

Page 5	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

(b) Overpayment
 Payment in advance
 Credit note issued
 Deposit received
 Etc. 1 mark each to maximum [3]

(c) Less chance of fraud
 Less chance of errors
 Fraud or errors easier to find
 Checking easier
 Total debtors and creditors figures available
 Etc. 1 mark each to maximum [3]

[Total: 30]

3 (a)

	\$		\$		
Unit selling price			1 100	(1)	
Less					
Direct materials	128	(1)			
Direct wages	625	(1)			
Variable production overhead	40	(1)			
Variable sales overhead	<u>30</u>	(1)	<u>823</u>		
Unit contribution			<u><u>277</u></u>		[5]

OR

			8 800 000	(1)	
Sales					
Less					
Direct materials	1 024 000	(1)			
Direct wages	5 000 000	(1)			
Variable production overhead	320 000	(1)			
Variable sales overhead	<u>240 000</u>	(1)	<u>6 584 000</u>		
Total contribution			2 216 000	/ 8 000	
Unit contribution			277		[5]

OR

Total contribution = Profit + Fixed costs
 $1\ 656\ 000 + 640/2 + 480/2 = 2\ 216\ 000$ divided by 8000 for unit contribution = 277
1 2 2 [5]
 The answer 307 should be awarded **(4)** marks.

Page 6	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

(b)	BUY IN		LEASE		EXTRA SHIFT	
	\$		\$		\$	
Sales	<u>2 200 000</u>	(1)	<u>2 200 000</u>	(1)	<u>2 200 000</u>	(1)
Less						
Buy in, lease, training	1 840 000	(1)	260 000	(1)	50 000	(1)
Direct materials			256 000	(1)	256 000	(1)
Direct wages			1 250 000	(1)	1 437 500	(2)
Variable production overhead			80 000	(1)	80 000	(1)
Variable sales overhead	<u>60 000</u>	(1)	<u>60 000</u>	(1)	<u>60 000</u>	(1)
Total variable costs	<u>1 900 000</u>	(1)	<u>1 906 000</u>	(1)	<u>1 883 500</u>	(1)
Extra profit	300 000	(1)of	294 000	(1)of	316 500	(1)of [22]
Alternative (wrong) answers	360 000	(4)	224 000	(7)		
	2 016 000	(3)				

The feasibility study is treated as a sunk cost - lose **of** mark for extra profit on leasing if feasibility cost included.

Candidates may use a mix of methods between options, e.g. use the above for option 1 and the method below for options 2 and 3. There is no problem here.

OR candidates may calculate the total rather than the additional profit and this is possibly most likely.

Sales	<u>11 000 000</u>	(1)	<u>11 000 000</u>	(1)	<u>11 000 000</u>	(1)
Direct materials	1 024 000		1 280 000	(1)	1 280 000	(1)
Direct labour	5 000 000		6 250 000	(1)	6 437 500	(2)
Variable production overhead	320 000		400 000	(1)	400 000	(1)
Variable sales overhead	300 000	(1)	300 000	(1)	300 000	(1)
Fixed production overhead	320 000		320 000		320 000	
Fixed sales overhead	240 000		240 000		240 000	
Buy in, Lease, Training	<u>1 840 000</u>	(1)	<u>260 000</u>	(1)	<u>50 000</u>	(1)
Total costs	<u>9 044 000</u>		<u>9 050 000</u>		<u>9 027 500</u>	
Profit	1 956 000	(1)of	1 950 000	(1)of	1 972 500	(1)of
Original profit	<u>1 656 000</u>		<u>1 656 000</u>		<u>1 656 000</u>	
Additional profit	300 000	(1)of	294 000	(1)of	316 500	(1)of [22]

OR possibly a unit approach

Selling price	<u>1100</u>	(1)	<u>1100</u>	(1)	<u>1100.00</u>	(1)
DM			128	(1)	128.00	(1)
DL			625	(1)	718.75	(2)
VPO			40	(1)	40.00	(1)
VSO	30	(1)	30	(1)	30.00	(1)
Buy in, Lease, Training	<u>920</u>	(1)	<u>130</u>	(1)	<u>25.00</u>	(1)
Total costs	<u>950</u>		<u>953</u>		<u>941.75</u>	
Unit profit	150	(1)of	147	(1)of	158.25	(1)of
× 2000 = Added profit	300 000	(1)of	294 000	(1)of	316 500	(1)of [22]

Page 7	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

- (c) Introduce an evening shift (or whichever is most cost-effective) (1)of
 Advantage - no need to spend so much money on training in future years. (1)
 Disadvantage - work involved in setting this up. (1) [3]
 Or any other reasonable advantage/disadvantage.
 If candidate suggests answer not totally based on cost/profit, accept provided good reason given – e.g. (Advantage) buying in is simplest solution but (Disadvantage) can't guarantee quality.

The own figure mark cannot be given unless all three options are attempted.

[Total: 30]

There are, unfortunately, other possibilities for the three options which cannot be ignored, though they are unlikely to appear.

Candidate may use the contribution figure calculated in the 3rd version of (a).

	\$		\$		
Option 1					
8000 × 277 (from (a))			2 216 000	(1)of	
2000 × 1100			<u>2 200 000</u>	(1)	
			4 416 000		
Buy in	1 840 000	(1)			
Sales o/h	60 000	(1)			
Original profit	1 656 000				
Fixed costs	<u>560 000</u>		<u>4 116 000</u>	(1)of	[5]
			300 000		
Option 2					
Sales (1) (1) (1)			2 200 000	(1)	
less $(7144 - 560) \times 2$					
8 (1)	1 646 000				
Lease	<u>260 000</u>	(1)	<u>1 906 000</u>	(1)	
			294 000	(1)	[8]
OR					
10 000 × 277			2 770 000	(5)	
less					
Lease	260 000	(1)			
Fixed costs	560 000				
Original profit	<u>1 656 000</u>		<u>2 476 000</u>	(1)	
			294 000	(1)	[8]

The figure \$2 770 000 recognises the increase in sales, materials, variable production costs and sales overheads.

Page 8	Mark Scheme	Syllabus	Paper
	GCE A/AS LEVEL – May/June 2008	9706	02

Option 3				
Sales		2 200 000	(1)	
less (1) (1) (1)				
$(7144 - 560) \times 2$				
8 (1)	1 646 000			
Training	50 000	(1)		
Labour	<u>187 500</u>	(1)		
		<u>1 883 500</u>	(1)	
		316 500	(1)	[9]

OR

10 000 × 277		2 770 000	(5)	
less				
Training	50 000	(1)		
Labour	187 500	(1)		
Fixed costs	560 000			
Original profit	<u>1 656 000</u>			
		<u>2 453 500</u>	(1)	
		316 500	(1)	[9]

Further possibilities:

Option 1				
Sales		2 200 000	(1)	
less purchases		<u>1 840 000</u>	(1) + (1)	
		360 000	(1)	[4]

Only omission is variable costs so award an extra 1 for assumed sub-total

Option 2				
Contribution		2 770 000	(5)	
less costs (560 000 + 260 000)		<u>820 000</u>	(1)	
Profit		1 950 000	(1)	
Original profit		<u>1 656 000</u>		
		294 000	(1)	[8]

Option 3				
Contribution		2 770 000	(5)	
less Variable cost		<u>1 437 500</u>		
New contribution		1 332 500		
less fixed costs		<u>560 000</u>		
		772 500		
Training cost		<u>50 000</u>	(1)	
New Profit		<u>722 500</u>		
Additional profit (1 656 000 - 722 500)		933 500	(1)of	[7]