

## 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	2 400	} Van rental
		4 748	} Drivers wages
Receipts customers	(10F) 35 680	1 600	} Rent for garage
Van disposal	(1) 1 300	430	} Cash stolen
		2 972	} Sundry expenses
		11 450	} Drawings
		14 301	} Fuel expenses
		2 349	} Bal c/d
	<u>40 250</u>	<u>40 250</u>	
Bal b/d	(10F) 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	<u>1 648</u>	(1)
	40 191	
Less debtors at 1st July 2011	<u>3 766</u>	(1)
Sales	<u>36 425</u>	(1) (OF)

[5]

(c)

Asif Income Statement  
Year ended 30 June 2014

	\$	\$	
Sales (from part b)		36 425	(10F)
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	<u>1 648</u>		(1)
		<u>28 149</u>	
Profit for the year (must be labelled)		<u>8 276</u>	(10F)

[12]

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

(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			<u>(200)</u>
			300 (1)
Current assets			
Inventory		80	
Trade receivables		50	
Cash		<u>10</u>	
		140 (1)	
Current liabilities			
Trade payables	35		
Other payables	20		
Bank overdraft	<u>25</u>	<u>80 (1)</u>	60 (10F)
Non-current liabilities			
Long term loan			<u>(40) (1)</u>
			<u>320</u>
Financed by:			
Opening capital			310
Add: net profit			<u>30 (1)</u>
			340
Less: drawings			<u>(20) (1)</u>
			<u>320</u>

Alternative presentation (IAS format) accepted

Lance  
Statement of financial position at 30 November 2014

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

[8]

(b)

Ratio	Formula	Calculation
Current	Current assets / current liabilities <b>(1)</b>	140 / 80 = 1.75:1 <b>(10F)</b>
Liquid (acid test)	(Current assets – inventory) / Current liabilities <b>(1)</b>	(140 – 80) / 80 = 0.75:1 <b>(10F)</b>

[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	<u>50 000</u>	(1)	
	<u>97 500</u>		
Payments			
Other expenses	12 500		
Cash purchases	18 000	(1)	
Payments to trade payables	35 000	(2)	
Loan interest	<u>125</u>	(1)	
	<u>65 625</u>		
Net cash in/outflow	31 875		
Opening balance	<u>(15 000)</u>	(1)	
Closing balance	<u>16 875</u>	(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)	<u>109 900</u> (1)	<u>204 100</u> (1)
Profit	<u>9 100</u> (1)	<u>16 900</u> (1)

[4]

(c) Marginal costing

	Jan	Feb
	\$	\$
Sales	119 000	221 000
Variable costs (@ \$13)	<u>91 000</u>	<u>169 000</u>
Contribution	28 000 (1OF)	52 000 (1OF)
Fixed costs	<u>27 000</u>	<u>27 000</u>
Profit	<u>1 000</u> (1OF)	<u>25 000</u> (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	<u>(8 100)</u> <b>(10F)</b>		
3 000 @ \$2.70		<u>8 100</u> <b>(10F)</b>	
Marginal costing profit	<u>1 000</u> <b>(10F)</b>	<u>25 000</u> <b>(10F)</b>	<b>[4]</b>

**(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 =  $(\$324\,000 + \$60\,000) / 12 = \$32\,000 \text{ pm} / 11\,000 \text{ units} = \$2.91$  **(10F)**

Total unit cost =  $\$2.91 + \$13.00$  **(1) = \\$15.91 (10F)**

Sales ( $\$17 \times 7\,700$ )	130 900	<b>(1)</b>	
Cost of sales ( $\$15.91$ <b>(3)</b> $\times 7\,700$ )	<u>122 507</u>		
Profit	<u>8 393</u>	<b>(10F)</b>	<b>[5]</b>

**(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]**