# MARK SCHEME for the May/June 2010 question paper

# for the guidance of teachers

## 9706 ACCOUNTING

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

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UNIVERSITY *of* CAMBRIDGE
International Examinations

**1  (a)**                    Income statement (Trading and Profit and Loss Account)
for the year ended 30 April 2010

|  | $000 | $000 |  |  |
|---|---|---|---|---|
| Revenue (sales) |  | 1600 | **1** |  |
| Cost of sales |  |  |  |  |
| Inventory (stock) at 1 May 2009 | 124 |  | **1** |  |
| Ordinary goods purchased (Purchases) | 946 |  | **1** |  |
|  | 1070 |  |  |  |
| Inventory (stock) at 30 April 2010 | 219 | 851 | **1** |  |
| Gross Profit |  | 749 | **1of** |  |
| Operating expenses: |  |  |  |  |
|    Wages | 172 |  | **1** |  |
|    Distribution expenses | 48 |  | **1** |  |
|    Business rates | 50 |  | **1** |  |
|    Insurance | 28 |  | **1** |  |
|    Advertising | 79 |  | **1** |  |
| Depreciation |  |  |  |  |
|    Buildings (Property) | 30 |  | **2of** | see |
|    Warehouse fittings | 35 |  | **3of** | below |
| Loss on sale | 1 | 443 | **1** |  |
| Profit from operations (Operating profit) |  | 306 | **1of** |  |
| Loan interest |  | 12 | **1** |  |
| Profit for the year (Net profit) |  | 294 | **1of** |  |

[19]

| Workings for depreciation: | | $000 Cost | $000 Depn |  |
|---|---|---|---|---|
| Balance on Warehouse fittings per trial balance |  | 348 | 197 |  |
| Less cost of fittings sold | **1** | 52 | 41 | Marks |
|  |  | 296 | 156 | for |
| Depreciation for year = (296 – 156) × 25% = | **2** |  | 35 | dep'n |
| Total depreciation for balance sheet |  |  | 191 |  |
|  |  |  |  |  |
| Balance on Property (buildings) per trial balance |  | 1490 | 320 |  |
| Add back per note (ii) | **1** | 10 |  |  |
|  |  | 1500 |  |  |
| Depreciation for year = 1500 × 2% | **1** |  | 30 |  |
| Total depreciation for balance sheet |  |  | 350 |  |

**(b)**                                         Balance Sheet at 30 April 2010

|  | $000 Cost | $000 Dep'n | $000 NBV | |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current (fixed) assets | | | | |
| Property (Buildings) | 1500 | 350 | 1150 | **1** |
| Warehouse fittings | 296 | 191 | 105 | **1** |
|  | 1796 | 541 | 1255 | **1of** |
| Current Assets | | | | |
| Stock | | 219 | | **1** |
| Trade receivables (debtors) | | 360 | | |
| Other receivables | | 2 | | **1** |
| Cash and cash equivalents (bank) | | 48 | 629 | |
| **Total assets** | | | 1884 | |
| | | | | |
| **Equity and liabilities** | | | | |
| Equity: | | | | |
| Capital at 1 May 2009 | | | 1400 | |
| Net profit | | | 294 | **1of** |
| | | | 1694 | |
| Drawings | | | 25 | **1** |
| | | | 1669 | |
| Current liabilities | | | | |
| Trade payables (creditors) | | 92 | | |
| Other payables (accruals) (12 + 5 + 6) | | 23 | 115 | **3** |
| | | | | |
| Non-current liabilities | | | | |
| 12% Loan repayable 2015 | | | 100 | **1** |
| | | | 1884 | |

**[11]**

**[Total: 30]**

**2 (a) (ii)** $\dfrac{\text{Net profit}}{\text{Sales}} \times 100$ = $\dfrac{45\,000}{375\,000} \times 100$ = 12%

**(iii)** $\dfrac{\text{Net profit}}{\text{Capital}} \times 100$ = $\dfrac{45\,000}{450\,000} \times 100$ = 10%

**(iv)** $\dfrac{\text{Net profit}}{\text{Total Assets}} \times 100$ = $\dfrac{45\,000}{480\,000} \times 100$ = 9.40%

**(v)** $\dfrac{\text{Current Assets}}{\text{Current Liabilities}}$ = $\dfrac{52\,000}{30\,000}$ = 1.7:1

**(vi)** $\dfrac{\text{Current Assets - Stock}}{\text{Current Liabilities}}$ = $\dfrac{24\,000}{30\,000}$ = 0.8:1

**(vii)** $\dfrac{\text{Debtors}}{\text{Sales}} \times 365$ = $\dfrac{22\,500}{375\,000} \times 365$ = 22 days (or 21.9)

**(viii)** $\dfrac{\text{Creditors}}{\text{Purchases}} \times 365$ = $\dfrac{30\,000}{281\,250} \times 365$ = 39 days (or 38.9)

**(ix)** $\dfrac{\text{Cost of Goods Sold}}{\text{Average Stock}}$ = $\dfrac{285\,250}{30\,000}$ = 9.5 times

2 marks each to a total of **16**  [16]
1 mark for correct formula **or** working or **2** for correct answer.

**(b)** Chikkadea  [2]

**(c)** C's gross profit margin shows that she makes more gross profit for every dollar of sales.
C's net profit margin shows that she makes more net profit for every dollar of sales.
C's return on total assets shows that for every dollar's worth of total assets in the business she receives a better return than D does.
C's return on capital employed shows that for every dollar she has invested in the business she receives more profit in return.
C's current ratio shows that she is more able to pay her short term debts.
C's liquid ratio shows that she is more able to pay her immediate debts.
C's debtors' turnover shows that she collects debt faster so that cash becomes available sooner.
C's creditors' turnover shows that she is given longer to pay her debts and has more time to make use of her creditors' cash.
C's inventory return rate (rate of stockturn) shows that she sells her goods faster and should therefore make her profits faster.

Any **four** of the above answers for a maximum of **3** marks each.  [12]

[Total: 30]

**3** **(a)**

| Marginal costing | | | | Alternative methods Marginal costing | | | |
|---|---|---|---|---|---|---|---|
| | | $ | | | | $ | |
| Sales (365 × $34.00) | | 12 410 | **2** | Sales | | 12 410 | **2** |
| | | | | Cost of sales | | | |
| Cost of production | | | | Prod costs | 6270 **W1** | | **6** |
| Direct material 380 × (1.00 + 3.00 + 7.00) | | 4 180 | **2** | Clos stock | 248 **W2** | 6 022 | **4** |
| Direct labour (380 ÷ 4 × 8) | | 760 | **2** | | | 6 388 | |
| Variable overhead (380 ÷ 4 ×14) | | 1 330 | **2** | Commission | | 365 | **1** |
| | | 6 270 | | Contribution | | 6 023 | **1** |
| less stock increase (15 × 16.50) | | 248 | **4** | Fixed costs | | 4 290 | **1** |
| | | 6 023 | | Net profit | | 1 733 | **1** |
| add sales commission 365 × 1 | | 365 | **1** | | | | |
| | | 6 388 | | | | | **[16]** |
| Contribution | | 6 023 | **1** | | | | |
| less fixed factory overhead | 3 040 | | | | | | |
| less fixed admin expenses | 1 250 | 4 290 | **1** | | | | |
| Net profit | | 1 733 | **1** | | | | |
| | | | **[16]** | | | | |

**(b)**

| Absorption costing | | $ | | Absorption costing | | $ | |
|---|---|---|---|---|---|---|---|
| Sales | | 12 410 | **1** | Sales | | 12 410 | **1** |
| | | | | Cost of sales | | | |
| Cost of production | | | | Prod costs | 9310 **W3** | | **3** |
| Direct material | 4 180 | | | Clos stock | 368 **W4** | 8 943 | **3** |
| Direct labour | 760 | | **1** | Gross Profit | | 3 468 | **1** |
| Variable overhead | 1 330 | | | Commission | 365 | | |
| Fixed overhead (380 × 3040 ÷ 380) | 3 040 | | **2** | Admin | 1250 | 1 615 | **1** |
| | 9 310 | | | Net profit | | 1 853 | **1** |
| less closing stock (15 × (11 + 2 + 3.5 + 8)) | 368 | | **3** | | | | |
| Production cost of sales | | 8 943 | | | | | **[10]** |
| Gross profit | | 3 468 | **1** | | | | |
| less sales commission | 365 | | | | | | |
| Less fixed admin expenses | 1 250 | 1 615 | **1** | | | | |
| Net profit | | 1 853 | **1** | | | | |
| | | | **[10]** | | | | |

**(c)** Reconciliation of profit

| | | |
|---|---|---|
| Absorption costing profit | 1 853 | |
| Marginal costing profit | 1 733 | |
| Difference | 120 | **1** |

Being value of closing stock 15 units **1** @ £8 **1**, the fixed factory overhead **1** is not included in marginal costing. **[4]**

The alternative methods use the following workings:

| **W1** | 380(1.00 + 3.00 + 7.00 + 2.00 + 3.50) | 6270 | |
|---|---|---|---|
| **W2** | 15(1.00 + 3.00 + 7.00 + 2.00 + 3.50) | 247.5 | (rounded to 248) |
| **W3** | 380(1.00 + 3.00 + 7.00 + 2.00 + 3.50 + 8.00) | 9310 | |
| **W4** | 15(1.00 + 3.00 + 7.00 + 2.00 + 3.50 + 8.00) | 367.5 | (rounded to 368) |

**[Total: 30]**