

**CAMBRIDGE INTERNATIONAL EXAMINATIONS**  
GCE Advanced Subsidiary Level and GCE Advanced Level

## **MARK SCHEME for the May/June 2014 series**

### **9706 ACCOUNTING**

**9706/23**

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

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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**1 (a)** Ocean Fishing Club Shop  
Trading Account for the year ended 31 March 2014

	\$	\$	
Sales		7 690	
Less cost of sales			
Inventory on 1/4/2013	975		
Add purchases	<u>3 198</u> (1)		
	4 173		
Less inventory on 31/3/2014	<u>859</u>	<u>3 314</u>	
Gross profit		4 376	
Less			
Wages	3 615 (1)		
Depreciation	<u>110</u> (1)	<u>3 725</u>	
Profit for the year	<u>651</u> (1of)		<b>[4]</b>

**(b)** Ocean Fishing Club  
Income and Expenditure Account for the year ended 31 March 2014

	\$	\$	
Shop profits	651		
Subscriptions	7 000 (1)		
Family day	2 300		
Interest	<u>300</u> (1)	10 251	
Less expenses			
Administration expenses	2 790		
Repairs	2 450 (1)		
Depreciation	<u>1 869</u> (3)	<u>7 109</u>	
Surplus		<u>3 142</u>	
Depreciation	1029 (1) + 840 (1) = 1869 (1of)		<b>[6]</b>

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(c) Ocean Fishing Club  
Statement of Financial Position at 31 March 2014

Non-current assets	Cost \$	Dep'n \$	NBV \$
Equipment	15 400 (1)	4 809 (1of)	10 591
Shop fittings	<u>750</u>	<u>110</u>	<u>640</u>
	<u>16 150</u>	<u>4 919</u>	11 231 (1of)
<b>Current assets</b>			
Inventory	859		
Subscription in arrears	200 (1)		
Bank – current account	876		
Bank – deposit account	<u>13 300 (1of)</u>		
		15 235	
<b>Current liabilities</b>			
Trade payables	784		
Other payables 370+195	565		
Subscriptions in advance	<u>720 (1)</u>	<u>2 069</u>	<u>13 166</u>
			<u>24 397</u>
Accumulated Fund (1)		19 805 (1)	
Add surplus (1)		<u>3 142 (1of)</u>	22 947
Donations fund			<u>1 450 (1)</u>
			<u>24 397</u>

[11]

(d) 1 Use funds from the deposit account

2 Bank loan

3 Ask members for donations

4 Fund raising events

**1 mark per valid suggestion (3)**

[3]

(e) Answers will be based on methods selected. For those above:

1 Advantage: Immediate funds available.

Disadvantage: No cash reserves for the club. Loss of interest.

2 Advantage: Funds available from bank for full amount.

Disadvantage: Interest will have to be paid. May require security.

3 Advantage: No interest payable.

Disadvantage: May not raise enough money, so other/additional method will be needed.

4 Advantage: No interest payable.

Disadvantage: May not raise enough money, so other/additional method will be needed.

**1 mark for advantage and 1 for disadvantage (max. 6)**

[6]

[Total: 30]

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- 2 (a) Non-current assets generate profit for the business (1). Depreciation is a fall in value of a non-current asset (1) due to wear and tear and other factors by making a charge against income generated (1) reducing the profit and thereby applying the prudence concept (1).

**1 mark per valid point (max. 3) [3]**

(b) (i) Wear and tear (1)

(ii) Obsolescence (1)

(iii) Technological innovation (1) [3]

(c) Rates of depreciation

Buildings =  $\$40\,000 / \$2\,000\,000 = 2\%$  (1)

Machinery =  $\$400\,000 / \$2\,000\,000 = 20\%$  (1)

Motor vehicles =  $\$100 / [\$ (700 - 300 + 100)] = 20\%$  (2)

(1) (1of) [4]

- (d) Assets suffer wear and tear, etc. and lose their value at different rates (1). This might depend on the degree of use of the asset. Vehicles tend to lose more value in the early years of use (1); hence the reducing balance method is more appropriate. Buildings tend to lose value (1) more consistently over their lifetime; therefore, the straight line method tends to be more appropriate (1). [4]

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(e)

	Buildings	Machinery	Motor vehicles	Total
	\$ 000	\$ 000	\$ 000	\$ 000
<b>COST</b>				
Balance at 31 May 2013	2000	2000	700	4700
Additions	1000 <b>(1)</b>	720 <b>(1)</b>	200 <b>(1)</b>	1920
Disposals	–	(160) <b>(1)</b>	(100) <b>(1)</b>	(260)
Balance at 31 May 2014	3000	2560	800	6360 <b>(1of)</b>
<b>DEPRECIATION</b>				
Balance at 31 May 2013	120	800	300	1220
Charge for the year	60 <b>(1)</b>	512 <b>(1)</b>	108 <b>(1)</b>	680
Disposals	–	(64) <b>(1)</b>	(40) <b>(1)</b>	(104)
Balance at 31 May 2014	180	1248	368	1796 <b>(1of)</b>
NBV at 31 May 2014	2820 <b>(1)</b>	1312 <b>(1)</b>	432 <b>(1)</b>	4564 <b>(1)</b>
NBV at 31 May 2013	1880	1200	400	3480

[16]

[Total: 30]

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- 3 (a) Advantage: Easier to calculate (1) by avoiding the necessity to allocate and apportion costs into departments. (1)

Disadvantage: Where different products spend differing amounts of time in departments (1) there is a danger that product costs will be under or overstated. (1)

[4]

- (b) \$ 367 200 / 162 000 direct labour hours = \$ 2.27 per direct labour hour (1) [1]

(c)

	Total	Cutting	Sewing	Finishing	Stores	Maintenance
Indirect wages	(1) 185 400	27 810	46 350	27 810	37 080	46 350
Rent and rates	(1) 38 500	9 167	11 000	5 500	5 500	7 333
Power	(1) 32 600	13 873	17 340	1 387		
Light and heat	(1) 18 800	4 476	5 371	2 686	2 686	3 581
Machine depreciation	(1) 73 700	37 954	28 244	5 296		2 206
Buildings insurance	(1) <u>18 200</u>	<u>4 333</u>	<u>5 200</u>	<u>2 600</u>	<u>2 600</u>	<u>3 467</u>
	<u>367 200</u>	<u>97 613</u>	<u>113 505</u>	<u>45 279</u>	<u>47 866</u>	<u>62 937</u>
Stores	(1of) <u>35 900</u>	<u>8 377</u>	<u>1 196</u>	<u>(47 866)</u>	(1of) <u>2 393</u>	
		133 513	121 882	46 475	–	65 330
Maintenance	(1of) <u>27 800</u>	<u>34 750</u>	<u>2 780</u>			(65 330) (1of)
		<u>161 313</u>	<u>156 632</u>	<u>49 255</u>		–

[10]

- (d) Cutting: \$ 161 313 / 84 000 direct labour hours (1) = \$ 1.92 per direct labour hour (1of)

Sewing: \$ 156 632 / 50 000 machine hours (1) = \$ 3.13 per machine hour (1of)

Finishing: \$ 49 255 / 56 000 direct labour hours (1) = \$ 0.88 per direct labour hour (1of) [6]

(e)

	Cutting	Sewing	Finishing
Actual overheads	168 180	146 320	51 870
Absorbed			
\$ 1.92 x 85 200	163 584		
\$ 3.13 x 52 450		164 169	
\$ 0.88 x 58 140			<u>51 163</u>
	<u>\$ 4 596</u> (1of)	<u>\$ 17 849</u> (1of)	<u>\$ 707</u> (1of)
	Under absorbed (1of)	Over absorbed (1of)	Under absorbed (1of) [6]

- (f) Manufacturing costs (1)  
Selling costs (1)  
Distribution costs (1)  
Administration costs (1)  
Finance charges and other costs (1)

1 mark for each functional group (max. 3) [3]

[Total: 30]