CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

MARK SCHEME for the May/June 2014 series

9706 ACCOUNTING

9706/21 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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

1 **(a)** Sales Ledger Control Account

2013							
1 Jul	Balance b/f	40	**(1)**	1 Jul–Dec 31	Cash	3320	**(1)**
					Sales returns	60	**(1)**
					Bad debts	80	**(1)**
1 Jul–Dec 31	Sales	3474	**(1of)**	31 Dec	Bal c/f	54	
		3514				3514	
2014							
1 Jan	Balance b/f	54	**(1)**				

[6]

(b) Manufacturing Account for the 6 months ended 31 December 2013

Raw materials				
Inventory at 1 July 2013			80	
Purchases	780			
Carriage in	128		908	
			988	
Inventory at 31 December 2013			112	
Cost of raw materials consumed			876	**(1cf)**
Manufacturing wages	480	**(1)**		
Factory power	88	**(1)**	568	
Prime cost (**must be labelled)**			1444	**(1of)**
Factory overheads				
Electricity (138 × 2/3)	92	**(1)**		
Rent and rates (326 – 26) × 3/5	180	**(1)**		
Factory expenses	56			
Depreciation on machinery (160 × 20%)/2	16	**(1)**	344	
			1788	
Work in progress (110 **(1)** – 146 **(1)**)			(36)	
Cost of production			1752	**(1) of**

[10]

(c) Income statement for 6 months ended 31 December 2013

Sales					3474	
less returns					60	
					3414	**(1)**
Finished goods						
Inventory at 1 July 2013	204					
Purchases	150	**(1)**	354			
Cost of production			1752	**(1of)**		
			2106			
Inventory at 31 December 2013			210		1896	
Gross profit					1518	
Depreciation on motor vehicles (6 months)			7	**(1)**		
Electricity			46	**(1)**		
Rent			120	**(1)**		
General expenses			45			
Bad debts			80	**(1)**	298	
Profit for the year (**must be labelled)**					1220	**(1 cf)**

[8]

(d) (i) Matching ensures that all income **(1)** and expenditure **(1)** are recognised in the financial **(1)** period in which they occur. The timing of payment **(1)** is irrelevant, i.e. if goods are sold in year one but not paid for until year two, then the sale is recognised in year one **(1)**. **[Max 3]**

(ii) Materiality allows that if the amount of a transaction is insignificant **1**, then the accepted treatment of that transaction may be disregarded **(1)**. For example, the purchase of an stapler, which may last for several years, would tend to be treated as revenue rather than capital expenditure, and the stapler itself would not be included in non-current assets **(1)**.

Materiality is decided on the following factors:
Will the cost of using the normal treatment of an item outweigh the benefit obtained? **(1)**
Will the disclosure of an item (e.g., the stapler mentioned above) make any difference to the decisions made by the person reading the financial statement? **(1)** **[Max 3]**

[Total: 30]

2 (a) (i)

Motor vehicles account

	$			$	
Balance b/d	12000	**(1)**	Disposal	12000	**(1)**
Cash	21400	**(1)**	Balance c/d	24000	
Disposal (PE)	2600	**(1)**			
	36000			36000	
Balance b/d	24000	**(1cf)**			

[5]

(ii)

Provision for depreciation of motor vehicles account

	$			$	
Disposal	5280	**(1)**	Balance b/d	3600	**(1)**
Balance c/d	2400		Income Statement **(1)**	4080	**(1)**
	7680			7680	
			Balance b/d	2400	**(1of)**

[5]

(iii)

Disposal of motor vehicles account

	$			$	
Motor vehicles	12000	**(1)**	Provision for depreciation.	5280	**(1)**
			Motor vehicles (PE)	2600	**(1)**
			Income statement **(1)**	4120	**(1of)**
	12000			12000	

[5]

(b)

Non-current assets	**Depreciation charge**
Freehold land and Buildings	2% × $100 000 = $2 000 **(1)**
Machinery	$64 000 × 25% = $16 000 **(1)**
	$18 000 × 25% × 9/12**(1)** = $3 375 **(1 of)**
Motor vehicle	Per ledger account $4 080 **(1 of)**
	Total charge for year $25 455 **(1of)**

[6]

(c) Goodwill is an intangible non current asset **(1)** which can arise due to a business's reputation, **(1)** location, **(1)** staff quality **(1)**
It is the excess of the value of the business over the book value of the net assets **(1)** **[5]**

(d) As this is not purchased goodwill **(1)** it is not shown in the books of account **(1)** and must be written off against the capital accounts **(1)** of the partners in their profit sharing ratios **(1)**. **[4]**

[Total: 30]

3 (a)

	$	**$**	
Selling price		32.00	
Variable costs			
Direct materials	6.50		
Direct labour	8.50		
Factory overheads	3.00		
Selling and administration overheads	2.50	20.50	**(1)**
Contribution		11.50	

Fixed costs = $3.50 + $5.00 = $8.50 **(1)** × 18 000 = $153 000

Breakeven point = $153 000 **(1)** / $11.50 **(1)** = 13 305 units **(1of)**

[5]

(b) Breakeven as % of capacity = (13 305 **(1)** / 24 000 **(1)**) × 100 = 55.44% **(1)** **[3]**

(c)

	$	$	
Sales (18 000 × $32)		576 000	
Variable costs			
Direct materials (18 000 × $6.50)	117 000		
Direct labour (18 000 × $8.50)	153 000		
Factory overheads (18 000 × $3.00)	54 000		
Selling and administration overheads (18 000 × $2.50)	45 000	369 000	
Contribution **(1)**		207 000	**(1)**
Less: Fixed overheads ($3.50 + $5.00 × 18 000)		153 000	
Profit		54 000	**(1of)**

[3]

(d) Workings

Revised capacity = 24 000 × 1.1 = 26 400 units
Revised demand = 18 000 × 1.5 = 27 000 units
Revised selling price = $32.00 × 0.875 = $28.00
Machinery depreciation = ($45 000 – $5 000) / 5 = $8 000 per annum
Revised fixed selling and administration costs = ($3.50 × 18 000) × 1.1 = $69 300
Revised total fixed overheads = $153 000 + $8 000 + $6 300 = $167 300
Revised contribution = $28.00 – $20.50 = $7.50

Breakeven point = $167 300 **(3)** / $7.50 **(1)** = 22 307 units **(1)** **[5]**

(e) Breakeven as % of capacity = 22 307 / 26 400 **(2)** = 84.5% **(1)** **[3]**

(f)

	$	$	
Sales (26 400 × $28)		739 200	**(1)**
Variable costs			
Direct materials (26 400 × $6.50)	171 600		
Direct labour (26 400 × $8.50)	224 400		
Factory overheads (26 400 × $3.00)	79 200		
Selling and administration overheads (26 400 × $2.50)	66 000	541 200	**(1)**
Contribution		198 000	**(1)**
Less: Fixed overheads		167 300	
Profit		30 700	**(1)**

[4]

(g) The directors should not go ahead with their plans. **(1)**

- Profit falls from $54 000 to $30 700
- Breakeven point increases from 13 305 units to 22 307 units
- Unit contribution falls from $11.50 to $7.50
- Investment may cause cash flow problems
- Estimate of 50% increase in demand may be over-optimistic

2 marks for each valid point – Max 6 **[7]**

[Total: 30]