MARK SCHEME for the May/June 2014 series

9706 ACCOUNTING

9706/22   Paper 2 (Structured Questions – Core), maximum raw mark 90

1 (a) Sales ledger control account

		$				$	
1 Jan	Balance b/d	33 000	1 Jan–31 Dec	Bank	166 660	**(1)**
				Discount allowed	8 600	**(1)**
				Returns inwards	4 200	**(1)**
				Bad debts	2 200	**(1)**
1 Jan–31 Dec	Sales	169 492 **(1of)**	31 Dec	Balance c/d	20 832	
		202 492			202 492	
2014						
1 Jan	Balance b/d	20 832 **(1)**				**[6]**

(b) Purchases ledger control account

		$				$	
1 Jan–	Bank	155 690 **(1)**	1 Jan	Balance b/d	18 200	
31 Dec	Discount rec	8 200 **(1)**				
	Returns out	4 500 **(1)**	1 Jan–31 Dec			
	Balance c/d	14 930		Purchases	165 120 **(1of)**	
		183 320			183 320	
			2014			
			1 Jan	Balance b/d	14 930 **(1of)**	
						[5]

(c) Expenses account

		$				$	
1 Jan	Bank	26 100 **(1)**	1 Jan	Balance b/d	5 600	**(1)**
			31 Dec	Income statement	18 780	**(1)**
				Balance c/d	1 720	
		26 100			26 100	
2014						
1 Jan	Balance b/d	1 720 **(1)**				**[4]**

(d) Charles Altas's Income Statement for the year ended 31 December 2013

	$	$	$
Revenue (169 492 **(1of)** + 30 000 **(1)** + 29 000 **(1)**)			228 492
less sales returns			4 200 **(1)**
			224 292
less cost of sales			
Inventory at 1 January 2013		29 600 **(1)**	
Purchases	165 120 **(1of)**		
less returns	4 500 **(1)**	160 620	
		190 220	
Inventory at 31 December 2013		35 200 **(1)**	155 020
Gross profit			69 272
add Discount received			8 200 **(1)**
			77 472
Less Discount allowed	8 600 **(1)**		
Expenses	18 780 **(1of)**		
Wages	10 000 **(1)**		
Bad debts	2 200 **(1)**		
Depreciation (60 + 20 – 74)	6 000 **(2)**		45 580
Profit for the year			31 892 **[15]**

[Total: 30]

2 (a)

		Dr $		Cr $		
(i)	Equipment	14 000 **(1)**				
	Arcadia Limited			14 000 **(1)**		**[2]**
(ii)	Income Statement **(1)**	51 200 **(1)**				
	Provision for depreciation – Fittings & Fixtures **(1)**			51 200 **(1)**		**[4]**
(iii)	Income Statement **(1)**	6 100 **(1)**				
	Provision for depreciation – Equipment **(1)**			6 100 **(1)**		**[4]**
(iv)	Disposals	8 000 **(1)**				
	Equipment			8 000 **(1)**		
	Bank	6 000 **(1)**				
	Disposals			6 000 **(1)**		
	Provision for depreciation – Equipment	2 600 **(1)**				
	Disposal			2 600 **(1)**		
	Disposal	600 **(1)**				
	Income Statement			600 **(1)**		**[8]**

(b) (i) It is used to record the double entry **(1)** of non-routine transactions **(1)**   **[2]**

(ii) Award 1 mark per correct example:
correction of errors, opening entries, writing off bad debts, sale of non-current assets, bad debt provision, depreciation, transfers etc.
(maximum 2 marks)   **[2]**

(c) (i) Award 1 mark (max) for a correct example; prudence, matching or consistency   **[1]**

(ii) Straight line depreciation is easy to calculate **(1)** and therefore there is less chance of errors **(1)** whereas reducing (diminishing) balance depreciation is more complex.

Reducing (diminishing) balance depreciation is appropriate for assets that have a heavier fall in value in earlier years **(1)** and is therefore appropriate for equipment **(1)**. Reducing (diminishing) balance depreciation has a higher depreciation charge in earlier years **(1)** which more accurately reflects the profit **(1)** – prudence **(1)** and matches costs to revenues **(1)** – matching / accruals **(1)**. Straight-line depreciation is an equal charge each year **(1)**

As equipment gets older maintenance costs increase **(1)** and with reducing (diminishing) balance method depreciation will decrease **(1)** therefore ensuring a more even charge **(1)** over the life of the asset.

(Maximum 7 marks)   **[7]**

[Total: 30]

3 (a) $

Direct materials	90 000 **(1)**
Direct labour	67 500 **(1)**
Variable production overhead	45 000 **(1)**
Marginal cost of 15 000 units	202 500

Marginal cost of 1 unit = $202 500 / 15 000 = $13.50 **(1)**

Alternative answer

Direct materials	6.00 **(1)**
Direct labour	4.50 **(1)**
Variable production overhead	3.00 **(1)**
Marginal cost	13.50 **(1)**

[4]

(b) $

Direct materials	90 000 **(1)**
Direct labour	67 500 **(1)**
Variable production overhead	45 000 **(1)**
Fixed production overhead	60 000 **(1)**
Absorption cost of 15 000 units	262 500

Absorption cost of 1 unit = $262 500 / 15 000 = $17.50 **(1)**

Alternative answer

Direct materials	6.00 **(1)**
Direct labour	4.50 **(1)**
Variable production overhead	
Fixed production overhead	3.00 **(1)**
	4.00 **(1)**
Marginal cost	13.50 **(1)**

[5]

(c) $

Revenue – 13 000 × $26	338 000 **(1)**
Variable cost of sales – 13 000 × $13.50	(175 500) **(1of)**
Contribution	162 500 **(1of)**
Fixed production overhead	(60 000) **(1)**
Other fixed overheads	(25 000) **(1)**
Profit	77 500 **(1of)**

[6]

(d) $

Revenue – 13 000 × $26	338 000 **(1)**
Cost of sales – 13 000 × £17.50	(227 500) **(1of)**
Gross profit	110 500 **(1of)**
Other fixed overheads	(25 000) **(1)**
Profit	85 500 **(1of)**

[5]

(e)

	$
Marginal cost profit	77 500
Inventory **(1)** – 2 000 units @ $4 per unit **(1)**	8 000
Absorption cost profit	85 500

[2]

(f) In the marginal cost statement, inventory is valued at variable cost **(1)** resulting in a higher cost of sales **(1)** and fixed costs are treated as a period cost **(1)**.
In the absorption cost statement, the inventory value includes an element of fixed overhead **(1)** resulting in a lower cost of sales **(1)**. Some of the fixed overheads are carried forward to the next accounting period **(1)**.

(Maximum 4 marks) **[4]**

(g) The marginal cost of producing one unit of Esprit will reduce **(1)** resulting in an increase in contribution **(1)**. The profit for the year will stay the same **(1)** because fixed production overheads will increase **(1)**. **[4]**

[Total: 30]