

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the May/June 2015 series

9706 ACCOUNTING

9706/22

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.

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1 (a) Calculating opening capital

Non-current assets (38 400 – 12 600 +41 940 – 22 680) = 45 060 (1)

Current assets (26 610 + 33 500 + 3750 +360) = 64 220 (1)

Current liabilities (19 920 + 410) = 20 330 (1)

Bank 4110 (1)

Opening capital 93 060 (1of) [5]

(b) (i) Revenue \$193 400 + \$15 180 = \$208 580 (1) [1]

(ii) Purchases \$134 750 + \$21 590 – \$19 920 = \$136 420 (1) [1]

(c) Closing inventory (\$33 500 + \$136 420) = \$169 920(1)OF
 – (\$208 580 × 70%) = \$146 006 (1)OF
 = \$23 914 (1)OF [3]

(d)

| | | Cash account | | | |
|-------------|--|---------------|-----------|---------------|-------------|
| | | Dr | | Cr | |
| | | \$ | | \$ | |
| Balance b/d | | 360 | | 9 675) | |
| Sales | | 15 180 | (1) | 4 800) | (1)for both |
| | | | cf | | |
| | | | | 460 | |
| | | | | <u>605</u> | (1)OF |
| | | <u>15 540</u> | | <u>15 540</u> | |
| Balance b/d | | 460 | (1) | | |
| | | | cf | | |

Marker note:

Motor expenses must be on credit side

Balance b/d must be on debit side

[4]

| | | | |
|---------------|---|-----------------|--------------|
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(e)

| Khalid | | | |
|--|-----------------|------------|----------------------------------|
| Income statement for the year ended 31 December 2014 | | | |
| | \$ | | \$ |
| Revenue | | | 208 580(1)OF |
| Cost of sales | | | |
| Opening inventory | 33 500 | (1)OF | |
| Purchases | <u>136 420</u> | (1)OF | |
| | 169 920 | | |
| Closing inventory | <u>(23 914)</u> | (1)OF | <u>146 006</u> |
| Gross profit (must be labeled) | | | 62 574(1)OF |
| Less: expenses | | | |
| Discount allowed | 914 | (1) | |
| Motor expenses | W1 | 5 495 | (1)OF |
| Property rental | | 22 500 | (1) |
| General expenses | W2 | 6 240 | (1) |
| Wages and salaries | | 26 150 | (1) |
| Depreciation motor vehicles | W3 | 8 775 | (3) |
| Depreciation fixtures and fittings | W4 | 2 889 | (1) |
| Loss on sale of motor vehicle | W5 | <u>800</u> | (2) |
| Loss for the year | | | <u>73 763</u> <u>(11 189)</u> |

Workings

| | | |
|----|------------------------------------|---|
| W1 | Motor expenses | \$4890 + \$605 = \$5495 (1) OF |
| W2 | General expenses | \$6650 – \$410 = \$6240 (1) |
| W3 | Depreciation motor vehicles | (((\$38 400 + \$18 300 – \$16 000) = 40 700 (1) – (\$12 600 – \$7000) = \$5600 (1)) × 25% = \$8775 (1)OF |
| W4 | Depreciation fixtures and fittings | (\$41 940 – \$22 680) × 15% = \$2889 (1) |
| W5 | Loss on sale of motor vehicle | (\$16 000 – \$7000) = \$9 000 (1)OF – \$8200 = \$800 (1)OF |

[16]

[Total: 30]

| | | | |
|---------------|---|-----------------|--------------|
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2 (a)

| Capital account – Kim | | | |
|-----------------------|----------------|-------------|----------------------|
| | \$ | | \$ |
| Goodwill | 72 000 (1) | Balance | 592 000 (1) |
| Balance c/d | <u>640 000</u> | Goodwill | <u>120 000 (1)</u> |
| | <u>712 000</u> | Balance b/d | <u>640 000 (1)OF</u> |

| Capital account – Chan | | | |
|------------------------|----------------|-------------|----------------------|
| | \$ | | \$ |
| Goodwill | 48 000(1) | Bank | 160 000 (1) |
| Balance c/d | 463 000 | Equipment | 325 000 (1) |
| | <u>511 000</u> | Inventory | <u>26 000 (1)</u> |
| | | Balance b/d | <u>463 000 (1)OF</u> |

+ 1 for narratives per mark scheme

[10]

- Marker notes:**
1. Allow columnar format.
 2. Allow Goodwill: Dr Chan \$48 000 (1) Cr Kim \$48 000 (2)

| | | | |
|--------|--|----------|-------|
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(b)

Kim and Chan
Statement of financial position at 1 October 2014

| | | |
|---|---------------|-----|
| Assets | | |
| Non-current assets | | |
| Motor vehicles | 100 000 | |
| Equipment (80 + 325) | 405 000 (1) | |
| Fixtures and fittings | 172 000 | |
| | 677 000 (1) | |
| Current assets | | |
| Inventory (105 + 26) | 131 000 (1) | |
| Trade receivables | 343 000 (1) | |
| Cash and cash equivalents (160 on it's own get (1)) | 144 000 (2) | |
| | 618 000 | |
| Total assets | 1 295 000 | |
| Capital and liabilities | | |
| Capital – Kim | 640 000 (1)OF | |
| Chan | 463 000 (1)OF | |
| | 1 103 000 | |
| Current liabilities | | |
| Trade payables | 192 000 | |
| Total capital and liabilities | 1 295 000 | [8] |

**Marker notes: 1. Capital a/c balances must be split.
2. If capital accounts corrupted by profit/drawings then 1OF mark only**

- (c) more capital.
range of knowledge, experience, expertise
can share ideas and problems.
can share the workload/responsibilities.
can cover for each other.
can share any losses
improves decision making

[1 mark per valid point to max of 3]

[3]

| | | | |
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- (d) increase in credit sales/more credit customers/increase in debtors(trade receivables)
deteriorating economic situation
less efficient credit control procedures
state of aged debtors' list
past experience.

Marker note: no marks for prudence/matching/accruals

[Max 5] **[5]**

- (e) \$350 000 (1) × 2% = provision of \$7000
\$350 000 × 5% = provision of \$17 500
Increase is \$10 500. (1) **[2]**

- (f) Decreases the profit for the year (1)
Decreases the trade receivables in the current assets in statement of financial position (1) **[2]**

Marker note: allow trade receivables, current assets or net current assets *only* for statement of financial position.

[Total: 30]

3 (a)

| | Basis \$ | Total \$ | Machining \$ | Finishing \$ | Maintenance \$ | Canteen \$ | |
|---------------------|-------------|-------------|-----------------|-----------------|-------------------|---------------|-----------|
| Power | kw | 32 000 | 16 000 | 8 000 | 5 333 | 2 667 | (1) |
| | hrs | | | | | | |
| Machine depn | Nbv | 28 400 | 22 089 | 3 944 | 2 051 | 316 | (1) |
| Supervision | Emp | 28 000 | 9 333 | 14 000 | 4 667 | – | (1) |
| Rent and rates | Area | 26 000 | 10 400 | 12 133 | 2 600 | 867 | (1) |
| Buildings insurance | Area | 11 000 | 4 400 | 5 133 | 1 100 | 367 | (1) |
| Light and heat | Area | 9 000 | 3 600 | 4 200 | 900 | 300 | (1) |
| | | 134 400 | 65 822 | 47 410 | 16 651 | 4 517 | |
| Canteen | | | 1 506 | 2 258 | 753 | (4 517) | (1) OF |
| | | | | | 17 404 | | |
| Maintenance | | | 11 487 | 5 917 | (17 404) | | (1) OF |
| | | | 78 815 | 55 585 | | | |
| | | | (1)OF | (1)OF | | | |

[10]

(b) Machining $\$78\,815 / 58\,000 = \1.36 (1)OF per machine hour (1)OF
 Finishing $\$55\,585 / 42\,000 = \1.32 (1)OF per labour hour (1)OF [4]

(c) Machining: $\$56\,120 \times \$1.36 = \$76\,323 - \$82\,436 = \$6\,113$ (1)OF under absorbed (1)OF
 Finishing: $\$41\,295 \times \$1.32 = \$54\,509 - \$56\,980 = \$2\,471$ (1)OF under absorbed (1)OF [4]

(d) Machining

- Factory overheads expenditure more than budget (1)OF
- Machine hours used less than budget (1)OF

Finishing

- Factory overheads expenditure more than budget (1)OF
- Labour hours used less than budget (1)OF

Marker note: If candidate calculates over absorption in (c) expenditure will be less than budget in both cases. Hours in both cases will be as per above.

[4]

(e) The total expected cost of production (1) must be known in advance (1) to enable selling prices to be calculated (1) and to ensure that expected overhead costs are fully recovered (1). Actual figures are not available (1).

[max 3]

| | | | |
|---------------|---|-----------------|--------------|
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(f)

| | | |
|---|--------------|--------------------|
| | \$ | |
| Direct material | 9.40) | |
| Direct labour – machining | 6.30) | |
| Direct labour – finishing | 2.20) | (1) for all |
| Overheads – Machining ($\$1.36 \times 30/60$) | 0.68 | (1) OF |
| Overheads – Finishing ($\$1.32 \times 20/60$) | <u>0.44</u> | (1) OF |
| | 19.02 | |
| | × 150 units | |
| Total cost | <u>2 853</u> | |
| Add: mark-up | <u>1 284</u> | (1) OF |
| Invoice value | <u>4 137</u> | (1) OF |

[5]

Alternative

| | | |
|---|--------------|--------------------|
| | \$ | |
| Direct material | 1410) | |
| Direct labour – machining | 945) | |
| Direct labour – finishing | 330) | (1) for all |
| Overheads – Machining ($\$1.36 \times 30/60$) | 102 | (1) OF |
| Overheads – Finishing ($\$1.32 \times 20/60$) | <u>66</u> | (1) OF |
| Total cost | 2 853 | |
| Add: mark-up | <u>1 284</u> | (1) OF |
| Invoice value | <u>4 137</u> | (1) OF |

[5]

[Total: 30]