

CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 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.

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1 (a) The City Cricket Club Refreshments Trading Account for the year ended 30 September 2015

| | | | |
|--------------------------------------|-------------|-------------|-----|
| | \$ | \$ | |
| Sales of refreshments | | 4430 | |
| Less cost of sales | | | |
| Opening inventory | 770 | | |
| Purchases (2697 + 840 (1) – 960 (1)) | <u>2577</u> | | |
| | 3347 | | |
| Less closing inventory | <u>590</u> | <u>2757</u> | |
| Gross profit | | 1673 (1)OF | [3] |

(b)

The City Cricket Club

Income and Expenditure Account for the year ended 30 September 2015

| | | | |
|---|---------------|------------------|------|
| | \$ | \$ | |
| Profit from sales of refreshments | | 1 673 | |
| Subscriptions (670 (1) + 320 (1) + 6650 | | | |
| –240 (1) – 540 (1) – 400 (1) | | 6 460 | |
| Life membership transfer | | 320 (1) | |
| Advertising revenue | | 2 600 | |
| Donations | | <u>770</u> | |
| | | 11 823 | |
| Less expenses | | | |
| Groundsman's wages | 3 500 | | |
| Travelling expenses | 942 | | |
| Rent | 4 500 | | |
| Depreciation (W1) | 2 000 | | |
| Loss on disposal | 250 (1) | | |
| Interest on loan | 250 (1) | | |
| Bad debts | <u>50 (1)</u> | <u>11 492</u> | |
| Surplus for the year | | <u>331 (1)OF</u> | [12] |

W1 1140 + 500 (1) + 360 (1)

OR

1070 + 570 (1) + 360 (1)

(c)

Statement of Financial Position at 30 September 2015

| Non-current assets | Cost | Accumulated depreciation | NBV |
|--|-----------|--------------------------|---------------|
| | \$ | \$ | \$ |
| Equipment (W1) | 9 300 | 3 550 (2)OF | 5 750 |
| Current assets | | | |
| Inventory | 590 | | |
| Subscriptions in arrears | 270 (1) | | |
| Bank | 6 315 (1) | 7 175 | |
| Current liabilities | | | |
| Subscriptions in advance | 540 | | |
| Interest due | 250 (1) | | |
| Trade payable for refreshments | 840 | 1 630 | 5 545 |
| | | | <u>11 295</u> |
| Accumulated fund (12 514 – 9430) | | 3 084 (1) | |
| Add surplus | | <u>331 (1)OF</u> | |
| | | 3 415 | |
| Life membership fund (W2) | | 2 880 (1)OF | |
| Non-current liabilities – 5% loan (2017) | | <u>5 000 (1)</u> | |
| | | <u>11 295</u> | |

[9]

WORKINGS

W1 Statement of financial position

Accumulated Depreciation

= 4800 – sold 3250 = 1550 (1) + 2000(1)OF = 3550

Non-current assets and Depreciation 10 700 – 5000 = 5700 + 3600

= 9300 non-current assets

Sale of equipment 5000 – 3500 (5000 × 20% × 3.25yrs)

= 1750 (Process 1500, Loss 250)

W2 Life membership 2800 + 400 = 3200 – trf 10% = 320 =2880

- (d) The fund contains large sums paid by members for a life subscription to the club (1). The full amount cannot be charged in one year to the Income and Expenditure account (1) as this will inflate the income (1) for that year and it cannot be compared satisfactorily to other year's (1) Accordance with the matching concept (1).

1 mark per point (Max 3)

[3]

- (e) The cashbook does not include non-cash items e.g. depreciation (1) The bank also includes items which are not in the income and expenditure account such as the sale of assets increase the amount of cash there (1) The Income and expenditure deals only with the current year but the bank account includes cash brought forward from the previous period (1)

1 mark per point

[3]

[Total: 30]

| | | | |
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2 (a) Profit and loss appropriation account for the year ended 31 May 2015

| | | |
|--------------------------|---------------------|------------------|
| | \$ | \$ |
| Profit for the year | | 90 000 |
| Add interest on drawings | | |
| Alex | 200 (1) | |
| Barry | <u>480 (1)</u> | <u>680</u> |
| | | 90 680 |
| Less interest on capital | | |
| Alex | 4 500 (1) | |
| Barry | <u>3 000 (1)</u> | <u>7 500</u> |
| | | 83 180 |
| Less Salary | | <u>6 000 (1)</u> |
| Barry | | <u>77 180</u> |
| Share of profit | | |
| Alex | 57 885 (1)OF | |
| Barry | <u>19 295 (1)OF</u> | <u>77 180</u> |

[7]

(b)

Current accounts

| | Alex \$ | Barry \$ | | Alex \$ | Barry \$ |
|-----------------|---------------|---------------|----------------|---------------|---------------------|
| Balance b/d | | 12 500 | Balance b/d | 14 000 | (1) |
| Int on drawings | 200 | 480 (1)OF | Int on loan | 1 500 | 1 600 (1) |
| Drawings | 5 000 | 12 000 (1) | Int on capital | 4 500 | 3 000 (1)OF |
| Balance c/d | 72 685 | 4 915 (1)OF | Salary | | 6 000 (1) |
| | | | Share profit | <u>57 885</u> | <u>19 295 (1)OF</u> |
| | <u>77 885</u> | <u>29 895</u> | | <u>77 885</u> | <u>29 895</u> |
| | | | Balance b/d | 72 685 | 4 915 |

[8]

- (c) Sharing losses. (1)
- Introduction of capital. (1)
- Bringing more expertise to the business. (1)
- Reducing the workload of the partners. (1)
- [Max. 2] [2]

| | | | |
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(d)

Capital accounts

| | Alex \$ | Barry \$ | Cesar \$ | | Alex \$ | Barry \$ | Cesar \$ |
|-------------|----------------|---------------|---------------------|-------------|----------------|-------------------|----------------|
| Goodwill | 30 000 | 20 000 | 10 000 (3) | Balance | 90 000 | 60 000 | (1) |
| | | | | Bank | | | 100 000 (1) |
| Balance c/d | <u>105 000</u> | <u>55 000</u> | <u>90 000 (1)OF</u> | Goodwill | <u>45 000</u> | <u>15 000 (2)</u> | |
| | <u>135 000</u> | <u>75 000</u> | <u>100 000</u> | | <u>135 000</u> | <u>75 000</u> | <u>100 000</u> |
| | | | | Balance b/d | 105 000 | 55 000 | 90 000 |

[8]

(e)

Statement of corrected net profit

| | | | | |
|---------------------|--------|-----------|----|--------------|
| Original Net Profit | | | \$ | 90 000 |
| | + | - | \$ | |
| 1 Sales day book | 20 000 | (1) | | 110 000 |
| 2 Inventory | | 2 000 (1) | | 108 000 |
| 3 Repairs | | 7 000 (1) | | 101 000 |
| 4 Purchase invoice | | 3 600 (1) | | 97 400 (1)OF |

[5]

[Total: 30]

3 (a) Overhead Analysis Sheet

| Overheads | Basis of Apportionment | Machining | Assembling | Maintenance | Totals | |
|--|------------------------|--------------------|--------------------|--------------------|--------|------------|
| | | \$ | \$ | \$ | \$ | |
| Rent | floor area | 5 600 | 4 000 | 3 200 | 12 800 | (1) |
| Machinery depreciation | value of machinery | 5 200 | 4 800 | | 10 000 | (1) |
| Power | kilowatt hours | 3 600 | 2 700 | 900 | 7 200 | (1) |
| Supervision of employees | number of employees | 2 560 | 1 920 | 1 920 | 6 400 | (1) |
| Indirect materials | allocated | 300 | 268 | 320 | 888 | (1) |
| Indirect labour | allocated | 2 720 | 1 480 | 860 | 5 060 | (1) |
| | | 19 980 | 15 168 | 7 200 | 42 348 | |
| re-apportionment of maintenance department overheads | | 3744 (1) | 3456 (1) | (7 200) (1) | | |
| | | 23 724 | 18 624 | (1)OF | 42 348 | |

[10]

(b) (i) Machining – Overhead absorption rate

(1) (OF) (1) (with narrative)

$$\frac{\text{Machine dept overhead}}{\text{Machine hours}} = \frac{\$23\,724}{14\,000} = \$1.69 \text{ per machine hour}$$

(1)

(ii) Assembling – Overhead absorption rate

(1) (OF)(1) (with narrative)

$$\frac{\text{Assembling dept overhead}}{\text{Direct labour hours}} = \frac{\$18\,624}{6\,000} = \$3.10 \text{ per direct labour hour}$$

(1)

[6]

| | | | |
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(c) (i) Cost statement – Job 68

| | |
|------------------|----------------------|
| | \$ |
| Direct materials | 3 600 |
| Direct labour | 1 900 |
| PRIME COST | <u>5 500 (1)</u> |
| Total overhead | <u>*355 (4) (OF)</u> |
| TOTAL COST | 5 855 |

\$

Overhead calculation

| | |
|---|-------|
| Machining – 100 hours × \$1.69 = 169 | |
| Assembling – 60 hours × \$3.10 = <u>186</u> | \$355 |

*[Needs the correct hours for 1 mark and the absorption rate from part (b) for 1 mark]
× 2. [5]

(ii) **(1) (OF) (1)** **(1) (OF)**

$$SP = \text{TOTAL COST} \times \frac{100}{80} = \$5855 \times \frac{100}{80} = (\$7318.75) = \$7319$$

[3]

(d) (i) Overhead over absorption

Machining department over absorbed. **(1)**

Over absorption of overheads means that the absorbed overheads were more than the actual overhead expenditure incurred. **(1)**

In the machining department indirect wages of \$2720 were absorbed into production. This was \$700 more than the actual overhead. Over-absorption of overhead occurred. **(1)**

A credit for \$700 should be made to the income statement. **(1)**
(Max 3)

| | | | |
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(ii) Overhead under absorption

Assembling department under-absorbed. **(1)**

Under-absorption of overheads means that the amount of overheads absorbed into production was less than the amount of actual overheads incurred. **(1)**

In the assembly department the number of direct labour hours worked was less than estimated.

Absorption rate from **(b) (ii)** was \$3.10 per direct labour hour.

Total overhead to be absorbed was \$18 624.

Using the actual labour hours worked the overhead absorbed would be

$5570 \times \$3.10 = \$17\,267$ **(1)**

Conclusion – overhead under- absorbed of \$1357 – This would be debited to the income statement. **(1)**

(Max 3)

NOTE

- One mark for identifying the correct department
- One mark for an explanation of over or under absorption
- One mark for some illustration relating to the figures
- One mark for the entry required in the income statement.

(Max 3 in each part)

[6]

[Total: 30]