UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced/Advanced Subsidiary Level

MARK SCHEME for the November 2005 question paper

9706 ACCOUNTING

9706/02 Structured Questions maximum raw mark 90

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the November 2005 question papers for most IGCSE and GCE Advanced Level and Advanced Subsidiary Level syllabuses and some Ordinary Level syllabuses.

1 (a) Bank balance is $43 000.

(b) O'Riley and Co plc
Trading, Profit and Loss and Appropriation account for the year ended 30 April 2005

	$	$	$	$	
Sales				605 000	
less Returns				15 000	
				590 000	1
less Cost of Sales					
Opening stock		75 000			
Purchases	380 000				
less Returns	10 000	370 000			1
		445 000			
less Closing stock		85 000		360 000	
Gross Profit				230 000	1 OF
less expenses					
Provision for doubtful debts			425		1
Bad debts written off			3 000		1
Wages		80 000			
add accrued wages		2 000	82 000		1
Other expenses		60 000			
less other expenses prepaid		3 300	56 700		1
Provision for depreciation on premises			10 400		1
Provision for depreciation on equipment			28 800		1
Debenture interest			5 000		1
Loan interest			2 000	188 325	1
Net Profit				41 675	1 OF
Proposed dividends - ordinary		13 600			
preference		4 800	18 400		1
Transfer to General Reserve			20 000	38 400	
Retained profit for the year				3 275	1 OF
Balance b/f				87 200	
Retained profit c/f				90 475	
					(14)

As some candidates may have interpreted "Trading account" to include only stock items, purchases and sales, it was decided that marks for this section would be awarded only for such items, giving a gross profit. However, for inclusion in the Income and Expenditure account, candidates would be expected to calculate a full net profit.

(c) Balance Sheet as at 30 April 2005

	$	$	$	$	
Fixed Assets		Cost	Dep'n	NBV	
Premises		520 000	114 400	405 600	
Equipment		200 000	156 800	43 200	
		720 000	271 200	448 800	1
Current Assets					
Stock		85 000			
Debtors	57 000				
less provision for doubtful debts	1 425	55 575			1
Bank		113 200			1OF
Prepayment		3 300	257 075		
Creditors due within one year					
Trade Creditors		43 000			
Accrual		2 000			
Dividends due		18 400	63 400		1
Net Current Assets				193 675	1
				642 475	
Creditors due after one year					
5% Debentures			100 000		
Loan			25 000	125 000	1
				517 475	
Financed by					
Issued Share Capital					
340 000 ordinary shares of $0.50 each				170 000	1
80 000 6% preference shares of $1 each				80 000	1
				250 000	
Reserves					
Share premium			82 000		1
Profit and Loss			90 475		1
General reserve			95 000	267 475	1
				517 475	
					(11)

(d) Share premium is the amount above the face value of a share at which it may be issued. Example: a $1 share may be issued at $1.05. The $1 is credited to the share capital account whilst the $0.05 is credited to the share premium account. It is a capital reserve and may be used as follows:

(i) to pay up unissued shares as fully paid bonus shares.
(ii) to write off preliminary expenses on formation of the company
(iii) to write off expenses incurred in share issues.
(iv) to provide any premium payable on redemption of shares or debentures.

Up to 4 points **(4)**

A2 (a) Accumulated fund at 1 November 2004

	Dr	Cr		
	$	$		
Bank	5 950			
Subscriptions in arrears	550			
Subscriptions in advance		100		
Stock	6 390			
Creditors		4 235		
Dance		50		
Equipment	8 000		**2 marks**	
Depreciation		2 000	**per pair**	
Accumulated fund		14 505		
	20 890	20 890		(4)

(b) Restaurant Trading Account for the year ended 31 October 2005

		$	$	$	$		
Sales					62 100		
Less cost of sales							
Opening stock				6 390			
Purchases			35 500				
Plus	**1**	4 785					
Less	**1**	4 235	550	36 050			
				42 440			
Less closing stock				7 520	34 920		
Gross profit					27 180	**1of**	
General expenses				2 100		**1**	
Wages				7 800		**1**	
Depreciation				550	10 450	**1**	
Net profit					16 730		(6)

(c) Income & Expenditure account for year ended 31 October 2005

	$	$	$	
INCOME				
Subscriptions = 17600-550+650+100-450			17 350	**5**
Restaurant profit			16 730	**1of**
			34 080	
EXPENDITURE				
Annual dance = 3750-50+125		3 825		**3**
Wages = 2/3 x 23400		15 600		**3**
Repairs		4 320		
General expenses = 5420-2100		3 320		**2**
Interest on loan = 5% of 60000		3 000		**2**
Depreciation - clubhouse	1 300			**1**
Depreciation - equipment	2 800	4 100	34 165	**2**
Deficit			85	**1of**
				(20)

Total marks 30

CHECK

	$	$	$
Balance Sheet			
Fixed assets	65000	1300	63700
	15400	5350	10050
			73750
Current assets			
Stock	7520		
subs	650		
Cash	860	9030	
Current liabilities			
Creditors	4785		
Subs	450		
Interest	3000		
Dance	125	8360	670
			74420
Acc fund			14505
Loan			60000
			74505
deficit			85
			74420

A3 Workings

	$	Monthly		
Selling price	800			
Direct materials	100	Assumed production (units)		2000
Direct labour	90	Actual production (units)		2400
Variable overheads	50	Sales (units)		1800
Fixed overheads	160	Fixed admin overheads		$80 000
Total overheads	400	Variable sales overhead	10%	Sales value
		Fixed sales overhead		$120 000

Absorption Costing

September 2005	$000	$000	
Opening stock		Nil	
Production costs			
Direct materials	240		
Direct labour	216		
Variable overheads	120		
Fixed overheads	384	960	1 see
less closing stock		240	1 marks
Production cost of sales		720	1 below
OR (1800 x 400)			

Marginal costing

Opening stock		Nil	
Variable production costs			
Direct materials	240		
Direct labour	216		
Variable overheads	120	576	1 see
less closing stock		144	1 marks
Variable production cost of sales		432	1 below
OR (1800 x 240)			

Over-absorption of overheads

Production volume	2400 units	
Fixed overheads per unit	$160	
Fixed overheads absorbed	$384 000	1 see marks
Fixed overheads incurred	$320 000	1 below
Over-absorbed	$64 000	

ANSWERS

(a) (i)			(a) (ii)		
Absorption			Marginal		
Sales units	1800		Sales units	1800	
	$000			$000	
Sales value	1440	1	Sales value	1440	
Production C of S	720	3	VC of production	432	3
Over-absorption	64	2	V sales o/heads	144	2
Gross profit	784	1		576	
			Contribution	864	1
			less fixed costs		
Fixed admin overheads	80		Production	320	
Variable sales overheads	144	1	Admin	80	
Fixed sales overheads	120		Sales	120	
	344	1		520	1
Net profit	440	1	Net profit	344	1

(18)

(b)

	$000		
Profit - absorption	440	Quantity produced	2400
Profit - marginal	344	Quantity sold	1800
Difference	96	Closing stock	600
	1	1	1

Stock has increased by 600 units which accounts for 600 x $160 of fixed costs, a total of $96 000
1

(4)

(c)

Fixed costs	$000		Sales price per unit		$800	1
Production overhead	320	1	less VC			
Admin overhead	80	1	DM	100		
Sales overhead	120	1	DL	80		
	520		Prod o/h	60		
			Sales o/h	80	320	1
			Unit contribution		$480	1

Break-even = FC/c = $520 000/480 = 1,084 units. **2 OF**

(8)

Total marks 30