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.

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CAMBRIDGE
International Examinations

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			3 474	
less returns			60	
			3 414	**(1)**
Finished goods				
Inventory at 1 July 2013	204			
Purchases	150 **(1)**	354		
Cost of production		1 752 **(1of)**		
		2 106		
Inventory at 31 December 2013		210	1 896	
Gross profit			1 518	
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)**			1 220	**(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	12 000	**(1)**	Disposal	12 000	**(1)**
Cash	21 400	**(1)**	Balance c/d	24 000	
Disposal (PE)	2 600	**(1)**			
	36 000			36 000	
Balance b/d	24 000	**(1cf)**			

[5]

(ii)

Provision for depreciation of motor vehicles account

	$			$	
Disposal	5 280	**(1)**	Balance b/d	3 600	**(1)**
Balance c/d	2 400		Income Statement **(1)**	4 080	**(1)**
	7 680			7 680	
			Balance b/d	2 400	**(1of)**

[5]

(iii)

Disposal of motor vehicles account

	$			$	
Motor vehicles	12 000	**(1)**	Provision for depreciation.	5 280	**(1)**
			Motor vehicles (PE)	2 600	**(1)**
			Income statement **(1)**	4 120	**(1of)**
	12 000			12 000	

[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]