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CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

# MARK SCHEME for the May/June 2014 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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2014 series for most IGCSE, GCE Advanced Level and Advanced Subsidiary Level components and some Ordinary Level components.

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1 (a) Sales ledger control account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 1 Jan | Balance b/d | 33000 | | 1 Jan–31 Dec | Bank | 166660 | **(1)** |
| | | | | | Discount allowed | 8600 | **(1)** |
| | | | | | Returns inwards | 4200 | **(1)** |
| | | | | | Bad debts | 2200 | **(1)** |
| 1 Jan–31 Dec | Sales | 169492 | **(1of)** | 31 Dec | Balance c/d | 20832 | |
| | | 202492 | | | | 202492 | |
| 2014 | | | | | | | |
| 1 Jan | Balance b/d | 20832 | **(1)** | | | | **[6]** |

(b) Purchases ledger control account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 1 Jan– | Bank | 155690 | **(1)** | 1 Jan | Balance b/d | 18200 | |
| 31 Dec | Discount rec | 8200 | **(1)** | | | | |
| | Returns out | 4500 | **(1)** | 1 Jan–31 Dec | | | |
| | Balance c/d | 14930 | | | Purchases | 165120 | **(1of)** |
| | | 183320 | | | | 183320 | |
| | | | | 2014 | | | |
| | | | | 1 Jan | Balance b/d | 14930 | **(1of)** |
| | | | | | | | **[5]** |

(c) Expenses account

| | | $ | | | | $ | |
|---|---|---|---|---|---|---|---|
| 1 Jan | Bank | 26100 | **(1)** | 1 Jan | Balance b/d | 5600 | **(1)** |
| | | | | 31 Dec | Income statement | 18780 | **(1)** |
| | | | | | Balance c/d | 1720 | |
| | | 26100 | | | | 26100 | |
| 2014 | | | | | | | |
| 1 Jan | Balance b/d | 1720 | **(1)** | | | | **[4]** |

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

| | $ | | $ | | $ | |
|---|---|---|---|---|---|---|
| Revenue (169492 **(1of)** + 30000 **(1)** + 29000 **(1)**) | | | | | 228492 | |
| less sales returns | | | | | 4200 | **(1)** |
| | | | | | 224292 | |
| less cost of sales | | | | | | |
| Inventory at 1 January 2013 | | | 29600 | **(1)** | | |
| Purchases | 165120 | **(1of)** | | | | |
| less returns | 4500 | **(1)** | 160620 | | | |
| | | | 190220 | | | |
| Inventory at 31 December 2013 | | | 35200 | **(1)** | 155020 | |
| Gross profit | | | | | 69272 | |
| add Discount received | | | | | 8200 | **(1)** |
| | | | | | 77472 | |
| Less Discount allowed | 8600 | **(1)** | | | | |
| Expenses | 18780 | **(1of)** | | | | |
| Wages | 10000 | **(1)** | | | | |
| Bad debts | 2200 | **(1)** | | | | |
| Depreciation (60 + 20 – 74) | 6000 | **(2)** | | | 45580 | |
| Profit for the year | | | | | 31892 | **[15]** |

**[Total: 30]**

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**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]**

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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]**

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**(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]**