Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 2017**

MARK SCHEME

Maximum Mark: 90

Published

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[Turn over

Question	Answer	Marks
1(a)	| | $ | | |---|---|---| | Inventory at 6 April 2016 | 57 760 | | | Purchases | (6 100) | **(1)** | | Sales (9600 × 4 / 5) | 7 680 | **(1)** | | Sale or return (2100 × 4 / 5) | 1 680 | **(1)** | | Customer returns (650 × 4 / 5) | (520) | **(1)** | | Inventory at 31 March 2016 | 60 500 | **(1OF)** |	**5**

Question	Answer	Marks
1(b)	Huan Income statement for the year ended 31 March 2016	**13**

	$		$	
Revenue			294 200	
Cost of sales				
Opening inventory	56 800			
Purchases	239 470			
Returns outwards	(410)	**(1)**		
	295 860			
Closing inventory	(60 500)	**(1OF)**	235 360	
Gross profit			58 840	**(1OF)**
Profit on disposal of motor vehicle **(W1)**			470	**(2CF/1OF)**
			59 310	
Deduct expenses				
Carriage outwards	810			
Discount allowed	1 250			
Insurance	1 090			
Motor expenses	6 460			
Other operating expenses	4 690			
Wages	12 230			
Advertising expenses (3480 – 200)	3 280	**(1)**		
Interest payable (950 + 180)	1 130	**(1)**		
Property rental (11 050 – 3250)	7 800	**(1)**		
Depreciation motor vehicles (49 600 × 25%)	12 400	**(1)**		
Depreciation fixtures and fittings 41 600 × 15%)	6 240	**(1)**		
Irrecoverable debt written off	420	**(1)**		
Increase in provision for doubtful debts **(W2)**	110	**(1)**	57 910	
Profit for the year			1 400	**(1OF)**

W1 Accumulated depreciation = $(18\,720 \times 25\%) + 4680 \times \frac{9}{12}$

NBV = 10 530

Profit = 11 000 – 10 530 = 470

W2 (34 920 – 420) × 2% – 580 = 110 increase

Question	Answer	Marks
1(c)	Benefits: **(maximum 3 marks)** Provides a total for trade receivables. **(1)** Helps in the preparation of the financial statements. **(1)** Helps deter/prevent/reduce fraud as it is maintained by different person. **(1)** Verifies the arithmetical accuracy / identifies errors in the sales ledger. **(1)** Can be reconciled with the sales ledger balances to improve accuracy. **(1)** Limitation: **(maximum 1 mark)** Doesn't identify errors of commission/omission/compensating/original entry. **(1)**	**4**
1(d)(i)	**operating expenses to revenue (to <u>two</u> decimal places)** (57 910 – 1130) (**1OF**) / 294 200) × 100 = 19.30% **(1) OF**	**4**
1(d)(ii)	**inventory turnover (days)** (56 800 + 60 500) / 2) (**1 OF**) / 235 360) × 365 = 91 days **(1OF)**	
1(e)(i)	Carla may have better control on operating expenses. Carla may have lower wages as she does the work herself, so takes higher drawings. Carla may have less depreciation as she does not need delivery vehicles. Allow other valid responses. **Maximum 2 marks** (1 for stating and 1 for developing)	**4**
1(e)(ii)	Carla has a faster turnover of finished goods because all her products are sold on the day they are made. Any inventory (e.g. flour) is perishable. **Maximum 2 marks** (1 for stating and 1 for developing)	

Question	Answer	Marks
2(a)	accounts to be debited: Asset disposal **(1)** Asset provision for depreciation **(1)** Bank or cash **(1)** accounts to be credited: Asset at cost **(1)** Asset disposal **(1)** Asset disposal **(1)**	**6**
2(b)	Provision for depreciation (see below)	**7**

Question 2(a):

accounts to be debited	accounts to be credited
Asset disposal **(1)**	Asset at cost **(1)**
Asset provision for depreciation **(1)**	Asset disposal **(1)**
Bank or cash **(1)**	Asset disposal **(1)**

Question 2(b): Provision for depreciation

Asset disposal	6 409	**(3)**	Balance b/d	43 750	
Balance c/d	55 179		Income statement	17 838	**(3)**
	61 588			61 588	
			Balance b/d	55 179	**(1)OF**

Workings:

Disposal:

19 500 × 20% × 3 / 12	975	**(1)**
18 525 × 20%	3 705	**(1)**
14 820 × 20% × 7 / 12	1 729	**(1)**
	6 409	

Income statement:

81 250 – 14 820 × 20%	13 286	**(1)**
28 230 × 20% × 6 / 12	2 823	**(1)**
14 820 × 20% × 7 / 12	1 729	**(1)**
	17 838	

Question	Answer	Marks
2(c)	**Transaction 1:** Profit would decrease by $2823 **(1)** due to the depreciation cost**.** **Transaction 2:** Profit would increase by $1509 **(1)** due to the profit on disposal of the asset**.** Alternative: The overall effect on profit for the year would be a decrease of $1314 **(2)**.	**2**

Question	Answer	Marks
3(a)(i)	Ordinary shareholders have voting rights at general meetings, whereas cumulative preference shareholders do not. **(1)** The cumulative preference dividend is a fixed amount, whereas the ordinary dividend is set annually and can vary depending on profits. **(1)** Unpaid ordinary dividends do not accumulate, whereas cumulative preference dividends Do. **(1)** If the company is liquidated, cumulative preference shareholders would be paid ahead of ordinary shareholders. **(1)** **Max 2**	**2**
3(a)(ii)	Subscribers pay for shares in a rights issue, but not with a bonus issue. **(1)** The company’s net assets are increased as a result of a rights issue, but unchanged with a bonus issue. **(1)** Shareholders may or may not exercise their rights, but will automatically receive their bonus shares. **(1)**	**3**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(b)</td><td>
<table>
<tr><th>Date</th><th>Name of account to be debited</th><th>Amount
$</th><th>Name of account to be credited</th><th>Amount
$</th><th></th></tr>
<tr><td>2015</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>June 1</td><td>Bank</td><td>100 000</td><td>Ordinary share capital</td><td>100 000</td><td>(1)</td></tr>
<tr><td></td><td>Bank</td><td>15 000</td><td>Share premium</td><td>15 000</td><td>(1)</td></tr>
<tr><td>Sept 30</td><td>Bank</td><td>30 000</td><td>Share premium</td><td>30 000</td><td>(1)</td></tr>
<tr><td>2016</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Oct 1</td><td>Bank</td><td>25 000</td><td>Ordinary share capital</td><td>25 000</td><td>(1)</td></tr>
<tr><td>Oct 1</td><td>Bank</td><td>4 750</td><td>Share premium</td><td>4 750</td><td>(2)</td></tr>
</table>
*25 000 × ($1.40 × 85% = $1.19) – 25 000 = 4750
</td><td>6</td></tr>
<tr><td>3(c)</td><td>Shareholders demand would result in a payment of $60 000 (1)
Retained earnings are only $45 000 (1)
Maximum dividend payable equals 45 000 / 125 000 = $0.36 (1)
There is sufficient cash in the bank ($90 000) to pay the dividend, (1) but insufficient retained earnings. (1)
Fewer funds for possible future development. (1)
Share premium account could be used to issue bonus. (1)
Max 4
Accept other valid answers.</td><td>4</td></tr>
</table>

Question	Answer	Marks
4(a)	Method of costing that you apply to the production of a number of identical items. **(1)** The cost per unit is found by dividing the total batch cost by the number of units in the batch. **(1)**	**2**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th></th><th>Assembly
$</th><th>Machining
$</th><th>Stores
$</th><th>Canteen
$</th><th></th></tr>
<tr><td>Allocated overheads</td><td>36 000</td><td>50 000</td><td>6 250</td><td>2 500</td><td></td></tr>
<tr><td>Re-apportionment of canteen</td><td>1 625</td><td>625</td><td>250</td><td>(2 500)</td><td>(1) row</td></tr>
<tr><td>Subtotal</td><td>37 625</td><td>50 625</td><td>6 500</td><td>–</td><td></td></tr>
<tr><td>Re-apportionment of stores</td><td>2 600</td><td>3 900</td><td>(6 500)</td><td>–</td><td>(1of) row</td></tr>
<tr><td>Total</td><td>40 225</td><td>54 525</td><td>–</td><td>–</td><td>(1of) both</td></tr>
</table>
</td><td>3</td></tr>
<tr><td>4(c)</td><td>
Assembly
$\frac{\$40\,225}{6000}$ = $6.70 (1of) per labour hr (1)
Machining
$\frac{\$54\,525}{5500}$ = $9.91(1of) per machine hr (1)
</td><td>4</td></tr>
<tr><td>4(d)</td><td>
<table>
<tr><th></th><th>$</th><th></th></tr>
<tr><td>Direct materials</td><td>48 000.00</td><td></td></tr>
<tr><td>Direct labour – assembly (500 hrs × $12)</td><td>6 000.00</td><td>} (1)</td></tr>
<tr><td>Direct labour – machining (300 hrs × $8)</td><td>2 400.00</td><td>} both</td></tr>
<tr><td>Production overheads (assembly 500 hrs × $6.70)</td><td>3 350.00</td><td>(1of)</td></tr>
<tr><td>Production overheads (machining 500 hrs × $9.91)</td><td>4 955.00</td><td>(1of)</td></tr>
<tr><td></td><td>64 705.00</td><td></td></tr>
<tr><td>Selling and administration costs costs</td><td>7 000.00</td><td>(1)</td></tr>
<tr><td>Total cost</td><td>71 705.00</td><td>(1of)</td></tr>
<tr><td>Cost per unit</td><td>$\frac{\$71\,705}{1000}$</td><td>= $71.71(1of)</td></tr>
</table>
</td><td>6</td></tr>
</table>

Question	Answer	Marks
4(e)	\$ \$71.71 × 75 units = 5 378.25 **(1of)** Profit 8 067.38 **(1of)** Total selling price 13 445.63 **(1of)**	**3**
4(f)	Anna would still make a profit on the order. **(1)** The order will help ensure the workforce is kept busy. **(1)** May lead to further orders from Sally. **(1)** However, Anna's other customers may also start demanding discount, **(1)** which would reduce Anna's overall profit. **(1)** Reaction of competitors who may lower their prices. **(1)** Could lose order if discount not given. **(1)** **1 mark** for decision and **4 marks** for justification.	**5**
4(g)	\$ Selling price 12 – variable costs (5) = contribution 7 **(1)** $\frac{\$21000}{\$7}$ **(1of)** = 3000 units **(1of)**	**3**

Question	Answer	Marks
4(h)	**Non-financial reasons (Max 2)** If Anna doesn’t fulfil the existing orders, the customers will not be happy / loss of reputation. **(1)** Could have a knock-on effect for other orders of other products. **(1)** Can workforce be used elsewhere if they don’t make these orders / lay off workers. **(1)** Morale of employees in existing factory. **Financial reasons (Max 2)** The orders provide a positive contribution towards fixed costs. **(1)** At present current level of demand is below break-even point - factory operates at a loss. **(1)** Demand may increase in the future and make the new factory profitable. **(1)** How accurate is the financial data. **(1)** Will closing the factory result in redundancy costs. **(1)** **1 mark** for advice and overall max **3 marks** for reasons.	**4**