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Cambridge International AS & A Level

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Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2016**

MARK SCHEME

Maximum Mark: 90

Published

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1 (a) (i) Sales = 96 300 + 200 **(1)** + 2250 – 3750 = 95 000 **(1)** **[2]**

(ii) Purchases = 73540 + 2480 **(1)** + 1790 – 3460 = 74 350 **(1)** **[2]**

(iii)

Jing
Income Statement for the year ended 30 April 2015

	$		$		$	
Revenue					95 000	
Opening inventory			15 000			
Purchases	74 350					
Purchases returns	2 480	**(1)**	71 870			
Carriage inwards			630	**(1)**		
			87 500			
Closing inventory			11 500			
Cost of sales					76 000	**(1) of**
Gross profit					19 000	**(1) of**
Less:						
Rent (5500 + 500 – 400)			5 600	**(1)**		
Carriage outwards			950			
Other operating expenses			95			
Electricity (345 – 35 **(1)** + 40 **(1)**)			350	**(2)**		
Irrecoverable debts			200	**(1)**		
Depreciation – equipment			243	**(2)**	7 438	
Profit for the year					11 562	**(1) of**

[11]

(b)

	Debit $	Credit $
Other operating expenses	36 **(1)**	
Capital (introduced)		36 **(1)**

[2]

(c) Opening entries **(1)**
Purchase and sale of non-current assets **(1)**
Non-regular transactions (such as year-end transfers) **(1)**
Calculating opening capital **(1)**
Write off bad debts **(1)**
Depreciation **(1)**

Any 2 points – Max 2 **[2]**

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(d)

Level	Description	Marks
Level 3	Movements in **both** ratios analysed with identification of a wide range of possible causes for the movements in both ratios	5–8
Level 2	Movements in **both** ratios analysed with valid comments for **both**, with a more limited evaluation of possible causes for the movements.	3–4
Level 1	Movement in **only** one ratio analysed with valid comments with very limited identification of possible causes for the movement. **Or** discussion of **both** ratios but only valid comments on **one**.	1–2
Level 0	No creditable response	0

Gross Profit

Valid comments may include

Jing may have had to pay higher prices from his usual suppliers but have been unable to pass on these higher prices to his customers. Or Jing may have had to purchase from new suppliers who were more expensive.

To be competitive with other businesses, Jing may have had to reduce his prices and therefore his gross margin has reduced

Jing may have introduced some new products at a lower introductory price.

To increase his volume of sales, Jing may have had more seasonal sales promotions

Jing's closing inventory has reduced significantly so there may have been out-of-date inventory that he wanted to clear at reduced prices.

Jing's inventory control may not have been as good and if more inventory was being lost, damaged or stolen, this would increase his cost of sales.

Closing inventory may be understated/miscalculated.

Profit for the year

Valid comments may include

The increase in the profit margin could have resulted from Jing controlling his overheads better

The increase in the profit margin could have resulted from a decrease in total overheads

Most overheads, including rent, do not normally increase in proportion to sales

Jing may have moved to smaller premises such that his rent has reduced compared to the previous year. **[8]**

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(e) Benefits of ratio analysis

Compare the results of the business over time
Compare the performance of businesses of different sizes
Compare the performance of the business with the market leader
Compare the performance of the business against industry averages

1 mark for each benefit to a max of 3 marks **[3]**

[Total: 30]

2 (a) Revaluation account

Dr	$000		Cr	$000	
Motor vehicles (36 – 8 – 25)	3	**(1)**	Premises (180 – 135)	45	**(1)**
Inventory (56 – 52)	4	**(1)**			
Trade receivables (48 – 46)	2	**(1)**			
Capital a/c – Colin	18				
Capital a/c – Darim	12	**(1)**			
Capital a/c – Emran	6				
	45			45	

[5]

(b)

	$000	$000	
Capital account opening balance		40	
Revaluation surplus		6	**(1)of**
		46	
Less: Goodwill (16 – 8)	8	**(1)**	
Capital account closing balance	65	**(1)** 73	
Paid into partnership bank account		27	**(1)of**

[4]

(c) Access to increased capital
Increased knowledge expertise
Losses shared by all partners
Able to offer greater range of services
Availability of cover
Shared responsibilities

Max 3 marks **[3]**

(d) To keep capital invested separate from profit and drawings
To help avoid the possibility of partners overdrawing
To reward the partner who has invested more capital with interest on the amount invested
To identify partners' drawings in order to calculate interest on drawings

Max 3 marks **[3]**

[Total: 15]

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3 (a) Depreciation is the allocation of the cost of a (non-current) asset over its expected working life. **(1)**
The allocation of the cost of using the asset over the year **(1)** **[1]**

(b) wear and tear
obsolescence
technological advance
passage of time
depletion
economic reasons
Any three points – Max 3 marks **[3]**

(c) (i) **Motor vehicles at cost account**

2014		$		2015		$	
Jun 1	Balance b/d	152 000		Mar 1	Motor vehicle disposal	152 000	
2015							
Mar 1	Loan	106 000	**(1)**	May 31	Balance c/d	190 000	
	Motor vehicle disposal	84 000	**(1)**				
		342 000				342 000	
Jun 1	Balance b/d	190 000					

[2]

(ii) **Motor vehicles provision for depreciation account**

2014		$		2014		$	
May 31	Balance c/d	30 400		May 31	Income statement	30 400	**(1)**
		30 400				30 400	
				June 1	Balance b/d	30 400	
2015				2015			
May 31	Motor vehicle disposal	48 640	**(1of)**	May 31	Income statement	18 240	**(1)**
	Balance c/d	9 500			Income statement	9 500	**(1)**
		58 140				58 140	
				June 1	Balance b/d	9 500	**(1of)**

Marker note
Dates must be correct to award marks **[5]**

(iii) Loss on disposal 152 000 – (48 640 + 84 000) = 19 360 **(1of)** **[1]**

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(d) Income statement:
Loss on sale increases **(1)**
Loan interest increases **(1)**
Profit decreases **(1)**

Max 2

Statement of financial position:
Amount of loan outstanding is increased **(1)**
Owner's capital is reduced **(1)**
Net assets reduce **(1)**
Max 2
Overall Max 3 **[3]**

[Total: 15]

4 (a)

	Machining $		Assembly $		Finishing $		Stores $	Canteen $
Indirect labour	253 000		290 000		340 100		52 000	78 000
Other indirect overhead costs	205 000		90 000		225 000		88 000	92 000
Total costs	458 000		380 000		565 100		140 000	170 000
Stores	49 000	**(1)**	35 000	**(1)**	56 000	**(1)**	(140 000)	
Canteen	42 500	**(1)**	51 000	**(1)**	76 500	**(1)**		(170 000)
						(1)		
Total	549 500		466 000		697 600	**row**		
	549 500 / 45 000		466 000 / 60 000		697 600 / 40 000			
Overhead absorption rate	$12.21 per machine hour	**(1of)** **(1)**	$7.77 per labour hour	**(1of)** **(1)**	$17.44 per labour hour	**(1of)** **(1)**		

[13]

(b)

	$	
Direct Materials (20 kilos @ $5 per kilo)	100.00	**(1)**
Direct labour (10 hours @ $9 per hour)	90.00	**(1)**
Machining department overhead (2 × $12.21)	24.42	**(1)of**
Assembly department overhead (3 × $ 7.77)	23.31	**(1)of**
Finishing department overhead (2 × $17.44)	34.88	**(1)of**
	272.61	
Margin	181.74	**(1)of**
Price to quote	454.35	**(1)of**

[7]

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(c) Easier to calculate
Cheaper to calculate
Some products may require more labour hour / machine hours
Less accurate
Different products may spend different time in each department.

1 mark for decision and 1 mark for each valid point **[4]**

(d) Over absorption of overheads will mean that too much overhead is charged to the product **(1)**. This means that a higher price is charged to the customer **(1)** leading to increased profits **(1).**
Or
Over absorption of overheads could also lead to a higher selling price **(1)** leading to lower demand **(1)** and lower profits **(1).**

Under absorption of overheads could lead to insufficient overhead being charged to a product **(1)**. This means a lower price is charged to the customer **(1)** which fails to cover costs and reduces profit **(1)**.
Or
Under absorption of overheads could also lead to a lower selling price **(1)** leading to higher demand **(1)** and higher profits **(1).** **[6]**

[Total: 30]

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