GradeMax

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

Paper 2 AS Level Structured Questions **March 2017**

MARK SCHEME

Maximum Mark: 90

Published

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Question	Answer	Marks
1(a)	Cash account Sales $92 600 Balance b/d $1 250 **(1)** General expenses $950 Assistants' wages $2 870 **(1)** Bank $78 780 **(1)** Balance c/d $1 250 Drawings (balance) $8 750 **(1)** $92 600	**4**
1(b)	Calculation of value of inventory stolen. $92600 × 60% = $55 560 cost of sales $80 690 – $640 **(1)** + $8940 **(1)** = $88 990 purchases $88 990 – $55 560 = $33 430 **(1)** theoretical closing inventory 33 430 – $31 900 (actual closing inventory) = $1530 **(1)** value of stock stolen Accept other alternative approaches.	**4**

Question	Answer	Marks
1(c)		**8**

Razia
Income statement for the year ended 30 June 2016

		$		$		$	
Revenue						92 600	
Cost of sales							
Purchases				88 990			
Closing inventory		31 900				55 560	
Stolen inventory		1 530		(33 430)			
Gross profit (must be labeled)						37 040	**(1CF)**
Less expenses							
Assistants' wages	W1			2 990	**(1)**		
Shop rental				21 600	**(1)**		
Motor expenses				3 140			
Light and heat	W2			1 170	**(1)**		
General expenses				950			
Depreciation – motor vehicles	W3			1 080	**(1)**		
Depreciation – Shop fixtures and fittings	W4			540	**(1)**		
Stolen inventory				1 530	**(1)**	33 000	
Profit for the year (must be labeled)						4 040	**(1of)**

Workings

W1	Assistants' wages	$2870 + $120 = $2990 **(1)**
W2	Light and heat	$1020 + $150 = $1170 **(1)**
W3	Depreciation MV	($5800 – $400) / 5 = $1080 **(1)**
W4	Depreciation Shop F & F	$3600 × 15% = $540 **(1)**

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Question	Answer	Marks
1(d)	For each part, **(1) mark for formula**, **(1)of mark for correct calculation**	
1(d)(i)	$\frac{\text{Current assets}}{\text{Current liabilities}}$ $\frac{31900 + 1250 + 3600}{8940 + 4330 + 270} = 2.71:1$	**2**
1(d)(ii)	$\frac{\text{Current assets excluding inventory}}{\text{Current liabilities}}$ $\frac{1250 + 3600}{8940 + 4330 + 270} = 0.36:1$	**2**
1(e)(i)	Inventory turnover Trade payables turnover Trade receivables turnover Working capital ratio Gearing **1 mark for a valid point up to a max of 2**	**2**
1(e)(ii)	Uses historical data Only uses financial data Does not explain the cause of any changes Cannot predict Any other valid point **1 mark for a valid point up to a max of 2**	**2**

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Question	Answer	Marks
1(f)	For increasing mark-up • Reduce bank overdraft • Increase (gross) profit • Improve liquidity • May enable to increase drawings Against increasing mark-up • Lose customers • May not be able to sell • Hard to decide the products this may be applied to • Competitors may enter/ need to consider competitors' price **1 mark for decision and 5 for justification**	**6**
	Total:	**30**

Question	Answer	Marks
2(a)(i)	To avoid trade receivables being overstated in the statement of financial position.	**1**
2(a)(ii)	Prudence / matching	**1**
2(a)(iii)	Provision for doubtful debts $ / $ Balance b/d 1 940 Balance c/d 3 175 / Income statement * 1 235 **(4)** 3 175 / 3 175 Balance b/d 3 175 **(1)** (*) General provision: 48 500 – 2100 **(1)** – 900 **(1)** = 45 500 **OF** × 5% = $2275 Income statement: 2275 + 900 **(1)** = 3175 – 1940 **(1)** = $1235	**5**
2(b)(i)	The new provision is deducted from trade receivables under current assets in the statement of financial position **(1)**	**1**
2(b)(ii)	An increase in provision for doubtful debts is shown as an expense **(1)** A decrease in provision for doubtful debts is shown as additional income <u>after the gross profit</u> **(1)**.	**2**
2(c)	Telephone expenses account $ / $ Balance b/d 380 / Balance b/d 275 **(1)*** Bank 4 750 / Income statement 4 670 **(1)OF** Balance c/d 560 **(1)** / Balance c/d 745 **(1)** 5 690 / 5 690 Balance b/d 745 * / Balance b/d 560 **(1)*Both** (*) Both balance b/d figures: Accrued: 840 × 2 / 3 **(1)** = $560 Prepaid: 2980 × 3 / 12 = $745	**5**
	Total:	**15**

Question	Answer	Marks
3(a)	Buildings (252 000 – 182 000 × 2%) $1400 **(1)**	1
3(b)		3

	$	
Machine purchased (62 850 × 20% × 4/12)	4 190	**(1)**
Machine sold (46 350 × 20% × 8 / 12)	6 180	**(1)**
Other machines (74 000 – 46 350 × 20%)	5 530	**(1)**
Total depreciation charge	15 900	

3(c)						8

King
Extract from Statement of Financial Position at 31 March 2016

	Cost		Accumulated Depreciation		Net Book Value	
	$		$		$	
Land and buildings	272 500	**(1)**	22 400	**(1)**	250 100	
Plant and machinery	109 650	**(2)**	28 870	**(3)**	80 780	
	382 150		51 270		330 880	**(1)**

Workings:
Cost land and buildings: 252 000 + 20 500 **(1)** = 272 500
Depreciation land and buildings: 21 000 + 1400 **(1)** = 22 400
Cost plant and machinery: 123 000 + 62 850 **(1)** – 76 200 **(1)** = 109 650
Depreciation plant and machinery: 49 000 + 15 900 **(1)** – 6180 **(1)** – 29 850 **(1)** = 28 870

3(d)	Wear and tear Obsolescence Changes in technology Changes in fashion tastes and trends Depletion of resources Passage of time Economic reasons **1 mark for a valid point up to a max of 3**	3
	Total:	**15**

Question	Answer	Marks
4(a)	A cost unit is a unit of production **(1)** whereas a cost centre is part of a business to which costs can be attributed / allocated to **(1)**	**2**
4(b)	Production cost centre is directly involved in producing the goods e.g machining, assembly **(1)** Service cost centre provides a service for the production cost centres / not involved in the production of goods **(1)**	**2**
4(c)	The amount each unit of production makes towards covering the fixed costs **(1)** and providing a profit. **(1)** Or The difference between sales revenue and variable costs **(1)** contributing toward making a profit (or towards the fixed costs)**(1)**	**2**

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Question	Answer	Marks
4(d)	Workings	**7**

	January	$	February	$
Sales	3600 × $12	43 200	5400 × $12	64 800
Opening inventory	–	–	900 × $5	4 500
Variable costs	4500 × $5	22 500	4500 × $5	22 500
Closing inventory	900 × $5	4500	0 × $5	0

Marginal costing profit statement

	January $	January $	February $	February $	
Sales		43 200		64 800	**(1) row**
Opening inventory	–		4 500		**(1)**
Variable prod cost	22 500		22 500		**(1) row**
Closing inventory	(4 500)		(0)		**(1)**
Cost of sales		(18 000)		(27 000)	**(1 of) row**
Contribution		25 200		37 800	
Fixed costs		(9 800)		(9 800)	**(1) row**
Profit		15 400		28 000	**(1 of) row**

Total profit 43 400

4(e)	Fixed production overhead costs / Production units	9000 / 4500 = $2 per unit **(1)**		**1**

Question	Answer	Marks
4(f)	Workings:	**8**

		January		February	
			$		$
	Sales	3600 × $12	43 200	5400 × $12	64 800
	Opening inventory	–	–	900 × $7	6 300
	Variable costs	4500 × $5	22 500	4500 × $5	22 500
	Fixed prod overheads	4500 × $2	9 000	4500 × $2	9 000
	Full production cost:	VC $5			
		FPO $2			
		$7			
	Closing inventory	900 × $7	6 300		–

Absorption costing profit statement

	January		February		
	$	$	$	$	
Sales		43 200		64 800	**(1) row**
Opening inventory	–		6 300		**(1) op and cls inventory**
Variable prod cost	22 500		22 500		**(1) row**
Fixed prod cost	9 000		9 000		**(1) row**
Closing inventory	(6 300)		–		
Cost of sales		(25 200)		(37 800)	**(1of) row**
		18 000		27 000	
Fixed admin costs		(800)		(800)	**(1) row**
Profit		17 200		26 200	**(1of) row**
				Total profit 43 400	**(1)**

Question	Answer			Marks
4(g)		January ($)	February ($)	**3**
	Profit per marginal costing statement (from part **(d)**)	15 400	28 000	
	Add difference in closing inventory	1 800		
	Less difference in opening inventory		1 800	
	Profit per absorption costing statement (from part **(f)**)	17 200	26 200	
4(h)	Marginal costing will help in short term decision making. Marginal costing is easy to operate. But relies upon costs being split into fixed and variable Absorption costing helps set prices Absorption costing is used in long-run rather than short-run. Absorption costing is more acceptable / realistic for financial statements. 1 mark for decision and 4 for justification			**5**
			Total:	**30**

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