GradeMax

Cambridge International AS & A Level

**Cambridge Assessment International Education**
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING** **9706/21**

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

MARK SCHEME

Maximum Mark: 90

**Published**

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| Question | Answer | | | Marks |
|---|---|---|---|---|
| 1(a) | | $ | | **5** |
| | 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)** | |

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| Question | Answer | Marks |
|---|---|---|
| 1(b) | | **13** |

Huan
Income statement for the year ended 31 March 2016

| | $ | | $ | |
|---|---|---|---|---|
| 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

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

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| Question | Answer | Marks |
|---|---|---|

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)** |

**6**

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 | |

**7**

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| Question | Answer | Marks |
|---|---|---|
| 2(c) | **Transaction 1:**<br>Profit would decrease by $2823 **(1)** due to the depreciation cost**.**<br><br>**Transaction 2:**<br>Profit would increase by $1509 **(1)** due to the profit on disposal of the asset**.**<br><br>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)**<br>The cumulative preference dividend is a fixed amount, whereas the ordinary dividend is set annually and can vary depending on profits. **(1)**<br><br>Unpaid ordinary dividends do not accumulate, whereas cumulative preference dividends<br>Do. **(1)**<br>If the company is liquidated, cumulative preference shareholders would be paid ahead of ordinary shareholders. **(1)**<br><br>**Max 2** | **2** |
| 3(a)(ii) | Subscribers pay for shares in a rights issue, but not with a bonus issue. **(1)**<br>The company's net assets are increased as a result of a rights issue, but unchanged with a bonus issue. **(1)**<br>Shareholders may or may not exercise their rights, but will automatically receive their bonus shares. **(1)** | **3** |

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| Question | Answer | Marks |
|---|---|---|
| 3(b) | | **6** |

| Date | Name of account to be debited | Amount $ | Name of account to be credited | Amount $ | |
|---|---|---|---|---|---|
| 2015 | | | | | |
| June 1 | Bank | 100 000 | Ordinary share capital | 100 000 | **(1)** |
| | Bank | 15 000 | Share premium | 15 000 | **(1)** |
| Sept 30 | Bank | 30 000 | Share premium | 30 000 | **(1)** |
| 2016 | | | | | |
| Oct 1 | Bank | 25 000 | Ordinary share capital | 25 000 | **(1)** |
| Oct 1 | Bank | 4 750 | Share premium | 4 750 | **(2)** |

*25 000 × ($1.40 × 85% = $1.19) – 25 000 = 4750

| | | |
|---|---|---|
| 3(c) | Shareholders demand would result in a payment of $60 000 **(1)**<br>Retained earnings are only $45 000 **(1)**<br>Maximum dividend payable equals 45 000 / 125 000 = $0.36 **(1)**<br>There is sufficient cash in the bank ($90 000) to pay the dividend, **(1)** but insufficient retained earnings. **(1)**<br>Fewer funds for possible future development. **(1)**<br>Share premium account could be used to issue bonus. **(1)**<br>**Max 4**<br>**Accept other valid answers.** | **4** |

| 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** |

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| Question | Answer | Marks |
|---|---|---|

**4(b)** **3**

| | Assembly $ | Machining $ | Stores $ | Canteen $ | |
|---|---|---|---|---|---|
| Allocated overheads | 36 000 | 50 000 | 6 250 | 2 500 | |
| Re-apportionment of canteen | 1 625 | 625 | 250 | (2 500) | **(1) row** |
| Subtotal | 37 625 | 50 625 | 6 500 | – | |
| Re-apportionment of stores | 2 600 | 3 900 | (6 500) | – | **(1of) row** |
| Total | 40 225 | 54 525 | – | – | **(1of) both** |

**4(c)** **4**

Assembly $\frac{\$40\,225}{6000}$ = \$6.70 **(1of)** per labour hr **(1)**

Machining $\frac{\$54\,525}{5500}$ = \$9.91**(1of)** per machine hr **(1)**

**4(d)** **6**

| | $ | |
|---|---|---|
| Direct materials | 48 000.00 | |
| Direct labour – assembly (500 hrs × \$12) | 6 000.00 | **} (1)** |
| Direct labour – machining (300 hrs × \$8) | 2 400.00 | **} both** |
| Production overheads (assembly 500 hrs × \$6.70) | 3 350.00 | **(1of)** |
| Production overheads (machining 500 hrs × \$9.91) | 4 955.00 | **(1of)** |
| | 64 705.00 | |
| Selling and administration costs costs | 7 000.00 | **(1)** |
| Total cost | 71 705.00 | **(1of)** |
| Cost per unit | $\frac{\$71\,705}{1000}$ = \$71.71 | **(1of)** |

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

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

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