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.

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]

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]

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]

(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]