

**MARK SCHEME for the May/June 2014 series**

**9706 ACCOUNTING**

**9706/21**

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.

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**1 (a)** Sales Ledger Control Account

2013						
1 Jul	Balance b/f	40 (1)	1 Jul–Dec 31	Cash	3 320 (1)	
				Sales returns	60 (1)	
				Bad debts	80 (1)	
1 Jul–Dec 31	Sales	<u>3 474 (1of)</u>	31 Dec	Bal c/f	<u>54</u>	
		<u>3 514</u>			<u>3 514</u>	
2014						
1 Jan	Balance b/f	54 (1)				

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**(b)** Manufacturing Account for the 6 months ended 31 December 2013

Raw materials		
Inventory at 1 July 2013		80
Purchases	780	
Carriage in	<u>128</u>	<u>908</u>
		988
Inventory at 31 December 2013		<u>112</u>
Cost of raw materials consumed		876 (1cf)
Manufacturing wages	480 (1)	
Factory power	<u>88 (1)</u>	<u>568</u>
Prime cost ( <b>must be labelled</b> )		1 444 (1of)
Factory overheads		
Electricity (138 × 2/3)	92 (1)	
Rent and rates (326 – 26) × 3/5	180 (1)	
Factory expenses	56	
Depreciation on machinery (160 × 20%)/2	<u>16 (1)</u>	<u>344</u>
		1 788
Work in progress (110 (1) – 146 (1))		<u>(36)</u>
Cost of production		<u>1 752 (1) of</u>

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(c) Income statement for 6 months ended 31 December 2013

Sales			3 474	
less returns			<u>60</u>	
				3 414 (1)
Finished goods				
Inventory at 1 July 2013	204			
Purchases	<u>150 (1)</u>	354		
Cost of production		<u>1 752 (1of)</u>		
		2 106		
Inventory at 31 December 2013		<u>210</u>	<u>1 896</u>	
Gross profit			1 518	
Depreciation on motor vehicles (6 months)		7 (1)		
Electricity		46 (1)		
Rent		120 (1)		
General expenses		45		
Bad debts		<u>80 (1)</u>	<u>298</u>	
Profit for the year (must be labelled)			<u>1 220 (1 cf)</u>	

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- (d) (i) Matching ensures that all income (1) and expenditure (1) are recognised in the financial (1) period in which they occur. The timing of payment (1) is irrelevant, i.e. if goods are sold in year one but not paid for until year two, then the sale is recognised in year one (1). **[Max 3]**
- (ii) Materiality allows that if the amount of a transaction is insignificant 1, then the accepted treatment of that transaction may be disregarded (1). For example, the purchase of an stapler, which may last for several years, would tend to be treated as revenue rather than capital expenditure, and the stapler itself would not be included in non-current assets (1).

Materiality is decided on the following factors:

Will the cost of using the normal treatment of an item outweigh the benefit obtained? (1)

Will the disclosure of an item (e.g., the stapler mentioned above) make any difference to the decisions made by the person reading the financial statement? (1) **[Max 3]**

**[Total: 30]**

2 (a) (i)

<b>Motor vehicles account</b>					
	\$		\$		
Balance b/d	12 000	(1)	Disposal	12 000	(1)
Cash	21 400	(1)	Balance c/d	24 000	
Disposal (PE)	2 600	(1)			
	<u>36 000</u>			<u>36 000</u>	
Balance b/d	24 000	(1cf)			

**[5]**

(ii)

<b>Provision for depreciation of motor vehicles account</b>					
	\$		\$		
Disposal	5 280	(1)	Balance b/d	3 600	(1)
Balance c/d	2 400		Income Statement (1)	4 080	(1)
	<u>7 680</u>			<u>7 680</u>	
			Balance b/d	2 400	(1of)

**[5]**

(iii)

<b>Disposal of motor vehicles account</b>					
	\$		\$		
Motor vehicles	12 000	(1)	Provision for depreciation.	5 280	(1)
			Motor vehicles (PE)	2 600	(1)
	<u>12 000</u>		Income statement (1)	4 120	(1of)
				<u>12 000</u>	

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(b)

Non-current assets	Depreciation charge	
Freehold land and Buildings	$2\% \times \$100\,000 = \$2\,000$	(1)
Machinery	$\$64\,000 \times 25\% = \$16\,000$	(1)
	$\$18\,000 \times 25\% \times 9/12$	(1) = \$3 375 (1 of)
Motor vehicle	Per ledger account	\$4 080 (1 of)
	Total charge for year	\$25 455 (1of)

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(c) Goodwill is an intangible non current asset (1) which can arise due to a business's reputation, (1) location, (1) staff quality (1)  
It is the excess of the value of the business over the book value of the net assets (1) [5]

(d) As this is not purchased goodwill (1) it is not shown in the books of account (1) and must be written off against the capital accounts (1) of the partners in their profit sharing ratios (1). [4]

[Total: 30]

3 (a)

	\$	\$	
Selling price		32.00	
Variable costs			
Direct materials	6.50		
Direct labour	8.50		
Factory overheads	3.00		
Selling and administration overheads	<u>2.50</u>	<u>20.50</u>	(1)
Contribution		<u>11.50</u>	

Fixed costs =  $\$3.50 + \$5.00 = \$8.50$  (1)  $\times 18\,000 = \$153\,000$

Breakeven point =  $\$153\,000$  (1) /  $\$11.50$  (1) = 13 305 units (1of)

[5]

(b) Breakeven as % of capacity =  $(13\,305$  (1) /  $24\,000$  (1) )  $\times 100 = 55.44\%$  (1) [3]

(c)

	\$	\$	
Sales (18 000 $\times$ \$32)		576 000	
Variable costs			
Direct materials (18 000 $\times$ \$6.50)	117 000		
Direct labour (18 000 $\times$ \$8.50)	153 000		
Factory overheads (18 000 $\times$ \$3.00)	54 000		
Selling and administration overheads (18 000 $\times$ \$2.50)	<u>45 000</u>	<u>369 000</u>	
Contribution (1)		207 000	(1)
Less: Fixed overheads ( $\$3.50 + \$5.00 \times 18\,000$ )		153 000	
Profit		<u>54 000</u>	(1of)

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**(d) Workings**

Revised capacity =  $24\,000 \times 1.1 = 26\,400$  units

Revised demand =  $18\,000 \times 1.5 = 27\,000$  units

Revised selling price =  $\$32.00 \times 0.875 = \$28.00$

Machinery depreciation =  $(\$45\,000 - \$5\,000) / 5 = \$8\,000$  per annum

Revised fixed selling and administration costs =  $(\$3.50 \times 18\,000) \times 1.1 = \$69\,300$

Revised total fixed overheads =  $\$153\,000 + \$8\,000 + \$6\,300 = \$167\,300$

Revised contribution =  $\$28.00 - \$20.50 = \$7.50$

Breakeven point =  $\$167\,300$  (3) /  $\$7.50$  (1) = 22 307 units (1) [5]

**(e)** Breakeven as % of capacity =  $22\,307 / 26\,400$  (2) = 84.5% (1) [3]

**(f)**

	\$	\$	
Sales (26 400 × \$28)		739 200	(1)
Variable costs			
Direct materials (26 400 × \$6.50)	171 600		
Direct labour (26 400 × \$8.50)	224 400		
Factory overheads (26 400 × \$3.00)	79 200		
Selling and administration overheads (26 400 × \$2.50)	<u>66 000</u>	<u>541 200</u>	(1)
Contribution		198 000	(1)
Less: Fixed overheads		<u>167 300</u>	
Profit		<u>30 700</u>	(1)

[4]

**(g)** The directors should not go ahead with their plans. (1)

- Profit falls from \$54 000 to \$30 700
- Breakeven point increases from 13 305 units to 22 307 units
- Unit contribution falls from \$11.50 to \$7.50
- Investment may cause cash flow problems
- Estimate of 50% increase in demand may be over-optimistic

**2 marks for each valid point – Max 6**

[7]

[Total: 30]