

CAMBRIDGE INTERNATIONAL EXAMINATIONS
GCE Advanced Subsidiary Level

MARK SCHEME FOR the November 2001 question papers

8706 ACCOUNTING

8706/1	Paper 1 (Multiple Choice), maximum raw mark 30
8706/2	Paper 2 (Structured questions), maximum raw mark 90

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do not indicate the details of the discussions that took place at an Examiners' meeting before marking began. Any substantial changes to the mark scheme that arose from these discussions will be recorded in the published *Report on the Examination*.

All Examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.

Mark schemes must be read in conjunction with the question papers and the *Report on the Examination*.

- CIE will not enter into discussions or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the November 2001 question papers for most IGCSE and GCE Advanced Subsidiary (AS) Level syllabuses.



NOVEMBER 2001

ADVANCED SUBSIDIARY LEVEL

MARK SCHEME

MAXIMUM MARK : 30

SYLLABUS/COMPONENT : 8706/1

**ACCOUNTING
(MULTIPLE CHOICE)**



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Item	Correct Answer	Item	Correct Answer
1	D	16	D
2	C	17	B
3	C	18	D
4	B	19	B
5	A	20	A
6	B	21	A
7	C	22	A
8	A	23	D
9	A	24	B
10	B	25	D
11	C	26	B
12	B	27	D
13	D	28	D
14	A	29	A
15	C	30	C

NOVEMBER 2001

ADVANCED SUBSIDIARY LEVEL

MARK SCHEME

MAXIMUM MARK : 90

SYLLABUS/COMPONENT : 8706/2

**ACCOUNTING
(STRUCTURED QUESTIONS)**



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Note: 'OF' – This means the 'own figure' rule applies. A candidate may not be penalised twice for the same error. The candidate is, of course, penalised where the error is made, but any later answers which are wrong purely in consequence of that error are eligible for full marks if the calculation is based on the candidate's own earlier wrong figure.

'CF' = correct figure. Only the correct figure as given in the mark scheme is acceptable.

- 1 (a) Minimise possibility of fraud
 Make fraud easier to find
 Minimise time taken to find errors
 Make errors easier to find; only need check section which is wrong
 Figures for total debtors and creditors easily available
 Security - control accounts not handled by sales/purchases ledger clerk
 etc
 Maximum 2 marks per point to maximum (6)
 (1 for statement, 1 for development)
- (b) Purchases Ledger Control account
- | | Dr | Cr | Balance | |
|------------------------------|---------|---------|---------|-----|
| | \$ | \$ | \$ | |
| Balance at 1/5/2000 | | 43,120 | 43,120 | 1 |
| Credit purchases for year | | 824,140 | 867,260 | 1 |
| Credit purchases returns | 12,400 | | 854,860 | 1 |
| Payment to creditors | 745,980 | | 108,880 | 1 |
| Discount received | 31,400 | | 77,480 | 1 |
| Cr bals to sales ledger a/cs | 5,210 | | 72,270 | 1+1 |
| | | | | (7) |
- (c) (i) Amended Purchases Ledger Control account
- | | | | | |
|-----------------------------------|---------|---------|---------|-----|
| Balance at 1/5/2000 | | 43,120 | 43,120 | |
| Credit purchases for year (+2040) | | 826,180 | 869,300 | 1 |
| Credit purchases returns | 12,400 | | 856,900 | |
| Payment to creditors (+1450) | 747,430 | | 109,470 | 1 |
| Discount received (-1000) | 30,400 | | 79,070 | 1 |
| Cr bals to S L accounts (+850) | 6,060 | | 73,010 | 1+1 |
| | | | | (5) |
- (c) (ii) Proof
- | | | | |
|------------------------|--|---------------|-----|
| Purchases ledger total | | 67,660 | 1 |
| add Balance omitted | | 3,210 | 1 |
| Invoice omitted | | 2,040 | 1 |
| Balance understated | | 100 | 1 |
| | | <u>73,010</u> | 1 |
| | | | (5) |
- (d) Prudence - a loss should be provided for as soon as it is anticipated
 but profit should not be assumed until it is actually made (2)

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- (e) (i) Goodwill - accept reference to
 difficulty in determining what it is
 difficulty in quantifying it
 can't determine future value
 only recognised on sale of a business
 purchased Goodwill shown in accounts
 non-purchased Goodwill not shown in accounts
 any relevant three points to a maximum (3)

- (e) (ii) Stock-in-trade - accept reference to
 valuation usually at lower of cost or realisable value
 replacement cost ignored
 future sales values ignored unless below cost
 any relevant three points to maximum (3)

2 (a)	Accumulated fund at start	\$			
	Fees due	600			
	Stock	500			
	Bank	8400			
	Cash float	50			
	Deposit a/c	15000	24550		1
	Creditors	<u>1450</u>			
	prepaid subs	480	1930		1
			<u>22620</u>		1 OF (3)

(b)	Shop Trading account				
		\$	\$	\$	
	Sales			7168	1
	Add difference in float			<u>20</u>	
				7188	
	Opening Stock		500		1
	Purchases	3745			
	less opening creditors	<u>1450</u>			1
		2295			
	add closing creditors	1260	3555		1
			<u>4055</u>		
	less closing stock		850		1
			<u>3205</u>		
	Wages		4000	7205	1
	Loss on shop			<u>-17</u>	(6)

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(c)

Subscriptions account			
Balance	b/d	1	600
I & E account		1	6000
Balance	c/d	1 OF	315
			<u>6915</u>
			<u>6915</u>
			Balance b/d
			315

(5)

(d)

Income & Expenditure Account		\$	
INCOME			
Subscriptions		6000	1
Cash at door		3500	1
Grant		10000	2
Donations		600	1
Interest on deposit a/c		800	1
		<u>20900</u>	
EXPENDITURE			
Loss on dance	90		2
Loss on shop	17		1 OF
General expenses	1565		2
Depreciation	400		2
Rent	8000	10072	1
SURPLUS		<u>10828</u>	1+1 OF

(16)

- 3 (a) Fixed costs are assumed to remain fixed regardless of circumstances
 BUT As factory expands, rent may increase. Etc
 Variable costs are assumed to be in direct proportion to volume of production
 BUT Overtime means higher labour rates. Etc
 Selling price is assumed to remain constant
 BUT New competition may mean price has to be lowered
 It is assumed that all production will be sold
 BUT Few businesses have no opening or closing stock
 It is assumed that sales mix will remain unchanged
 BUT Mix may change, and even though unit sales targets are reached,
 profits will depend on predominance of high or low margins on goods sold
 Costs are assumed to remain constant
 BUT Strikes, inflation, competition may change them
 Costs mix is assumed to remain constant
 BUT As business moves from Labour to Capital intensive, this ratio
 may change.
 All reasonable/reasoned answers acceptable to max 10 marks (1 per
 assumption, 1 per limitation)
- (10)

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(b) (i)	Sales - 7500 @ \$10		75000	
	Direct Materials - 7500 @ \$5.30	39750		
	Direct Labour - 7500 @ \$2	15000		
	Var. Overheads - 7500 @ \$0.9	6750	<u>61500</u>	
	CONTRIBUTION		13500	1 OF
	Fixed Costs - 10000 @ \$0.75		<u>7500</u>	1
	Net Profit		6000	1
			====	(3)
(b) (ii)	Sales - \$9000 @ \$10		90000	
	Direct Material - 9000 @ \$5.30	47700		
	Direct Labour - 9000 @ \$2	18000		
	Var Overheads - 8000 @ \$0.9	7200		1
	- 1000 @ \$0.85	<u>850</u>	<u>73750</u>	1
	CONTRIBUTION		16250	1 OF
	Fixed Costs		<u>7500</u>	
	Net Profit		8750	1
			====	(4)
(c)	Break-even = $FC/c = 7500/1.8$		4166.6667 units	3
	Should be whole number, so =		4167 units	1
				(4)
(d)	Sales - 10000 @ \$9		90000	
	Direct Material - 10000 @ \$5.30	53000		
	Direct Labour - 10000 @ \$2	20000		
	Var O'heads - 8000 @ \$0.9	7200		1
	- 2000 @ \$0.85	<u>1700</u>	<u>81900</u>	1
	CONTRIBUTION		8100	1
	Fixed Costs		<u>7500</u>	
	Net Profit		600	1
			===	(4)
(e)	Lower price means beating competitors' prices so selling more			
	Also means fuller employment for workers			
	But if lowered too much affects profits			
	Unless other savings can be effected			
	Which might mean lowering wages			
	Etc		Up to 4 points, maximum	(4)

