CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2014 series

9706 ACCOUNTING

9706/21 Paper 2 (Structured Questions – Core), maximum raw mark 90

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CAMBRIDGE
International Examinations

1 (a)

	$		$	
Profit for the year			250 000	
ADD			12 000	**(2)**
Credit note			262 000	
LESS				
Inventory	3 750	**(2)**		
Interest	2 000	**(1)**		
Repairs (+ 500 – 2000)	1 500	**(2)**		
Motor vehicle insurance (–14 800 + 13 000)	1 800	**(2)**		
Irrecoverable debts	8 000	**(1)**	17 050	
Corrected profit for the year			244 950	

[10]

(b)

Chen Ya Wen
Corrected Statement of Financial Position at 31 May 2014

	$		$		$	
Non-current assets						
Buildings at valuation					500 000	
Equipment at net book value					240 000	
Motor vehicles at net book value (–2000 + 500 – 16 000)					382 500	**(3)**
					1 122 500	
Current assets						
Inventory (55 000 – 6000 + 2250)	51 250	**(2)**				
Trade receivables (34 000 – 8000)	26 000	**(2)**				
Other receivables (4000 + 13 000 + 1200)	18 200	**(1)**				
Cash and cash equivalents	2 000	**(1)**			97 450	
Total assets					1 219 950	
Capital and liabilities						
Capital (opening)			900 000			
Add profit for the year			244 950	**(1)OF**		
			1 144 950			
Less drawings			75 000			
					1 069 950	
Non-current liabilities						
Loan					100 000	
Current liabilities						
Trade payables (52 000 – 12 000)	40 000	**(1)**				
Other payables (8000 + 2000)	10 000	**(1)**			50 000	
Total capital and liabilities					1 219 950	

[12]

(c)

Cash book

	$			$	
Balance	8 000	**(1)**	Bank charges	150	**(1)**
Dividends	450	**(1)**	Dishonoured cheque	1 200	**(1)**
			Corrected CB balance	7 100	
	8 450			8 450	

[4]

(d)

Bank reconciliation statement at 31 July 2014

	$	
Bank statement balance	5 600	**(1)**
Less cheques not yet presented	(2 000)	**(1)**
Add cheques lodged not yet credited	3 500	**(1)**
Cash book balance	7 100	**(1) Fig. + words**

[4]

[Total: 30]

2 (a)

Partners' capital accounts

	A	B	C		A	B	C
				Bal. b/d	38 500	27 600	
				Cash			100 000 **(1)**
Goodwill	60 000 **(1)**	30 000 **(1)**	30 000 **(1)**	Goodwill	80 000 **(1)**	40 000 **(1)**	
Bal. c/d	58 500	37 600	70 000 **(1)OF**				
	118 500	67 600	100 000		118 500	67 600	100 000
				Bal. b/d	58 500	37 600	70 000

[7]

(b)

Appropriation account

Net profit before adjustment				325 000
Bad debt recovered		5 000	**(1)**	
Bad debt		(15 000)	**(1)**	
Drawings		2 500	**(2)**	(7 500)
Adjusted net profit				317 500
Add: Interest on drawings	A	1 230	**(1)**	1 230
				318 730
Deduct: Salaries	A	30 000		
	B	30 000		
	C	30 000	**(1)**	(90 000)
Interest on capital	A	4 680	**(1)** of	
	B	3 008	**(1)** of	
	C	5 600	**(1)** of	(13 288)
				215 442
Profits	A	107 721	**(1)** of	
	B	53 860	**(1)** of	
	C	53 861	**(1)** of	215 442

[12]

(c)

Partners' current accounts

	A	B	C		A	B	C
Drawings	70 500 **(1)**	46 900 **(1)**	37 250 **(2)**	Bal. b/d	4 250	2 975	**(1)**
Int. on draws	1 230 **(1)**			Salaries	30 000	30 000	30 000 **(1)**
				Int. on cap	4 680	3 008	5 600 **(1)OF**
				Profits	107 721	53 860	53 861 **(1)OF**
Bal. c/d	74 921	42 943	52 211 **(1)OF**				
	146 651	89 843	89 461		146 651	89 843	89 461
				Bal. b/d	74 921	42 943	52 211 **(1)OF**

[11]

[Total: 30]

3 **(a)** Contribution per unit

	Ess		Tee		Ewe	
	$	$	$	$	$	$
Selling price		22		28		31 **(1 for all 3)**
Variable costs						
Direct materials	6		6		8	
Direct labour	8		10		12	
Overheads **(1 for each total marginal cost)**	4	18**(1)**	5	21**(1)**	6	26**(1)**
Contribution per unit **(1 for each unit contribution)**		4**(1)**		7**(1)**		5**(1)**

[7]

(b) Contribution per batch

	Ess	Tee	Ewe
Contribution per unit	$4	$7	$5 **(1 for all 3)**
X Batch	3 **(1)**	2 **(1)**	5 **(1)**
Contribution per batch	$12 **(1)**	$14 **(1)**	$25 **(1)**

[7]

(c) Maximum monthly profit

Production plan

Ewe	7 000	**(1)**	Contract
Ess	19 500	**(1)**	Maximum demand
Tee	13 000	**(1)**	Maximum 3 for 2
Ewe	500	**(1)**	Balance available
Total production	40 000		Maximum

		$	
Ess	19 500 × $4	78 000	
Tee	13 000 × $7	91 000	
Ewe	7 500 × $5	37 500	
Total contribution		206 500	**(1)OF**
Less: Fixed overheads		180 000	**(2)**
Profit		26 500	**(1)OF**

[8]

(d) Advantages
- Enables Zumbi to meet maximum demand for Ewe. **(1)**
- Enables Zumbi to meet maximum demand for Ess. **(1)**
- Zumbi may be able to use the space saved to make another profitable product. **(1)**

Disadvantages
- Quality of product may not be as good as own **(1)**
- Supplier may not be reliable **(1)**
- May not be able to save all the costs **(1)**
- Fixed costs will now be shared among less products **(1)**

[Max 6]

(e) Zumbi should not purchase the product **(1)** as the purchase cost is greater than the marginal cost **(1)**

Alternatively,

Zumbi should purchase the product **(1)** as it will produce a positive contribution of $1 **(1)**. **[2]**

[Total: 30]