# MARK SCHEME for the November 2004 question paper

## 9706 ACCOUNTING

**9706/02**          Paper 2 (Structured Questions), maximum raw mark 90

This mark scheme is published as an aid to teachers and students, to indicate the requirements of the examination. It shows the basis on which Examiners were initially instructed to award marks. It does 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 discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the November 2004 question papers for most IGCSE and GCE Advanced Level syllabuses.

**Grade thresholds** taken for Syllabus 9706 (Accounting) in the November 2004 examination.

| | maximum mark available | minimum mark required for grade: | | |
|---|---|---|---|---|
| | | A | B | E |
| Component 2 | 90 | 61 | 52 | 32 |

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.

**NOVEMBER 2004**


# GCE A/AS LEVEL


## MARK SCHEME

## MAXIMUM MARK: 90


SYLLABUS/COMPONENT: 9706/02

ACCOUNTING
Paper 2 (Structured Questions)


UNIVERSITY *of* CAMBRIDGE
International Examinations

**1 (a)**

| Bank account | Dr | Cr | Balance | | |
|---|---|---|---|---|---|
|  | $ | $ | $ | | |
| Capital | 17 600 |  | 17 600 | Dr | **1** |
| Purchases etc (30320+2000+800) |  | 33 120 | 15 520 | Cr | **1** |
| Motor Car |  | 5 750 | 21 270 |  | **1** |
| Motor expenses |  | 515 | 21 785 |  | **1** |
| Float |  | 100 | 21 885 |  | **1** |
| Sales (difference) | 24 005 |  | 2 120 | Dr | **1 + 1 of** |

(7)

**(b)**

| | $ | | |
|---|---|---|---|
| Total sales | | | |
| Cash paid in for sales | 24 005 | **1** | **of** |
| add rent | 720 | **1** | |
| add drawings | 5 200 | **1** | |
| Total sales | 29 925 | **1** | **of** |

(4)

**(c)** Closing stock

| | | | |
|---|---|---|---|
| Raw materials purchased = 33 120 – 2 000 - 800 = | $30 320 | **3** | |
| Cost of sales = 29 925 x $\frac{100}{175}$ = | $17 100 | **1 + 1 of** | |
| Closing stock = 30 320 - 17 100 | $13 220 | **1** | **of** |

(6)

**(d)** Trading and Profit and Loss account for the year ended 31 March 2004

| | | $ | $ | | |
|---|---|---|---|---|---|
| Sales | | | 29 925 | **1** | **of** |
| less cost of sales | | | | | |
| Purchases | | 30 320 | | | |
| less closing stock | | 13 220 | 17 100 | **1** | **of** |
| Gross profit | | | 12 825 | | |
| less expenses | | | | | |
| Rent | | 720 | | **1** | |
| Petrol | | 800 | | **1** | |
| Motor expenses | | 515 | | **1** | |
| Depreciation | Motor car | 1 150 | | **1** | |
| | Display cabinets | 400 | 1 550 | 3 585 | **1** |
| Net profit | | | 9 240 | **1** | **of** |

(8)

Side-by-side layout for accounts is equally acceptable.

**(e)** **(i)** If the company goes out of business the shareholders cannot be held personally liable for the company debts.

**(ii)** The death or retiral of a director of a limited company need not affect the business.

However,

**(iii)** Annual accounts must be professionally audited.

**(iv)** Companies must file annual return and accounts with the Registrar of Companies.

**(v)** There is much more "red tape" than with sole traders or partnerships.

**(vi)** Each shareholder must be sent a copy of the company's annual audited accounts.

Any other relevant answers.                              Any 5 points.     **(5)**
                                                                **Total [30]**

**2 (a)**

Sales Ledger Control Account

| | $ | | | $ | |
|---|---|---|---|---|---|
| Balance b/f | 5 627 | **1** | Sales returns | 1 997 | **1** |
| Sales for year | 100 384 | **1** | Bank (from debtors) | 92 760 | **1** |
| Dishonoured cheque | 109 | **1** | Discount allowed | 4 082 | **1** |
| | | | Bad Debts written off | 1 884 | **1** |
| | | | Contra entry | 208 | **1** |
| | | | Balance c/d | 5 189 | **1** |
| | 106 120 | | | 106 120 | |
| | | | | | |
| Balance b/f | 5 189 | **1** | **OF** | | **(10)** |

**(b)(i)**

Amended Sales Ledger Control Account

| | $ | | | $ | |
|---|---|---|---|---|---|
| | | | | | 1 |
| Balance b/f | 5 189 | **1** | Debit balance Contra | 412 | **1** |
| | | | | | 1 |
| Sales invoice omitted | 2 001 | **1** | Credit note correction | 440 | **1** |
| Additional Sales | 7 820 | **1** | | | |
| Discount allowed over/s | 620 | **1** | Balance c/d | 12 778 | **1** |
| | 15 630 | | | 15 630 | |
| | | | | | |
| Balance b/d | 12 778 | **1** | **OF** | | **(8)** |

Alternative Amended Sales Ledger Control Account

| | $ | $ | | | $ | $ | |
|---|---|---|---|---|---|---|---|
| Balance b/f | | 5 627 | **1** | Sales Returns | | 1 997 | |
| Sales | 100 384 | | | Dis all'd | 4 082 | | |
| | 2 001 | | **1** | less | 620 | 3 462 | **1** |
| | 7 820 | | **1** | Bank | | 92 760 | |
| less | 1 440 | 108 765 | **1** | Bad Debts w/o | | 1 884 | |
| Dishon cheque | | 109 | | Contras | 208 | | |
| | | | | | 1 412 | 1 620 | **1** |
| | | | | Balance c/d | | 12 778 | **1** |
| | | 114 501 | | | | 114 501 | |
| | | | | | | | |
| Balance b/d | | 12 778 | **1** | **OF** | | | **(8)** |

**(b)(ii)**                              Statement agreeing balances

|  |  | $ | $ |  |
|--|--|----|----|--|
|  |  |  |  | 1 |
| Sales ledger total |  |  | 9 387 |  |
| Add | Balance omitted | 4 020 |  | 1 |
|  | Balance understated | 220 |  | 1 |
|  | Entry omitted | 1 620 |  | 1 |
|  | Invoice omitted | 2 001 | 7 861 | 1 |
|  |  |  | 17 248 |  |
|  |  |  |  |  |
| Less | Receipt not posted | 1 210 |  | 1 |
|  | Credit note correction | 1 440 |  | 1 |
|  | Bankruptcy | 1 820 | 4 470 | 1 |
|  |  |  | 12 778 | 1   (9) |

**Any correct answers/layouts acceptable**

**(c)**    Minimises possibility of fraud
       Makes fraud easier to find
       Minimises possibility of errors
       Makes errors easier to find
       Checking easier as sectional ledgers created
       Control accounts not handled by clerks who make original entries
       Total debtors and creditors figures readily available

                                                          **Maximum (3)**
                                                          **Total [30]**

**3** **(a)**

|  | Option 2 | | Option 3 | |
|--|----------|--|----------|--|
| $\dfrac{\text{Fixed Costs}}{\text{Unit contribution}}$ | $\dfrac{30M}{370\text{-}150}$ | 136 364 Units | $\dfrac{50M}{420\text{-}100}$ | 156 250 units |

if units not rounded $50 454 545
if units rounded $50 454 680          $65 625 000
1 for using correct formula, 1 for each answer
Accept approximate answers for value if formula used is FC/CS ratio

**(5)**

**(b)** Units

| | | Option 1 $000 | Option 2 $000 | Option 3 $000 |
|--|--|--------------|--------------|--------------|
| **(i)** | 190 000 | 22 800 | 11 800 | 10 800 |
| **(ii)** | 240 000 | 28 800 | 22 800 | 26 800 |
| **(iii)** | 290 000 | 34 800 | 33 800 | 42 800 |

**(9)**

**(c)** $\dfrac{\text{Difference in Fixed Costs}}{\text{Difference in Contribution}}$          $\dfrac{\$50M\text{-}\$30M}{320\text{-}220}$          200 000 units

OR

$220x - 30\ 000\ 000 = 320x - 50\ 000\ 000$
i.e. $100x = 20\ 000\ 000$
i.e. $x = 200\ 000$ units

**(3)**

**(d)** $\dfrac{\text{Fixed Costs}}{\text{Contribution - Profit on buying in}}$          $\dfrac{50\ 000\ 000}{320\text{-}120}$          250 000 units

OR  $400x - 280x = 420x - 100x - 50\ 000\ 000$
$400x - 280x = 420x - 100x - 50\ 000\ 000$
i.e.  $200x = 50\ 000\ 000$
i.e.  $x = 250\ 000$ units

**(3)**

**(e)** Option 1 - buying in - is best from 200 000 up to 250 000 units.
Option 2 - do not use.
Option 3 is best from 250 000 upwards.
Any other relevant answers.
                                                                2 each          **(6)**

**(f)**

| Assumption | Limitation |
|------------|------------|
| FC remains fixed | Rent etc may increase |
| VC always in same proportion to sales | Economies of scale may occur |
| SP is constant | Competition may force lower prices |
| Sales mix does not change | Demand forces changes |
| B/E based on one product | Few produce only one product |
| Cost mix constant | Labour intensive becomes capital intensive |
| Costs either fixed or variable | Some are semi-variable |
| Technology/efficiency does not change | Firms constantly aim to improve |
| No outside influences | We live in a real world |
| etc | |

Limitations must follow on from assumptions          Any two pairs for    **(4)**

**Total  [30]**