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.

CAMBRIDGE International Examinations

1 (a) Sales ledger control account

		$				$	
1 Jan	Balance b/d	33 000		1 Jan–31 Dec	Bank	166 660	**(1)**
					Discount allowed	8 600	**(1)**
					Returns inwards	4 200	**(1)**
					Bad debts	2 200	**(1)**
1 Jan–31 Dec	Sales	169 492	**(1of)**	31 Dec	Balance c/d	20 832	
		202 492				202 492	
2014							
1 Jan	Balance b/d	20 832	**(1)**				**[6]**

(b) Purchases ledger control account

		$				$	
1 Jan–31 Dec	Bank	155 690	**(1)**	1 Jan	Balance b/d	18 200	
	Discount rec	8 200	**(1)**				
	Returns out	4 500	**(1)**	1 Jan–31 Dec			
	Balance c/d	14 930			Purchases	165 120	**(1of)**
		183 320				183 320	
				2014			
				1 Jan	Balance b/d	14 930	**(1of)**
							[5]

(c) Expenses account

		$				$	
1 Jan	Bank	26 100	**(1)**	1 Jan	Balance b/d	5 600	**(1)**
				31 Dec	Income statement	18 780	**(1)**
					Balance c/d	1 720	
		26 100				26 100	
2014							
1 Jan	Balance b/d	1 720	**(1)**				**[4]**

(d) Charles Altas's Income Statement for the year ended 31 December 2013

	$		$		$	
Revenue (169 492 **(1of)** + 30 000 **(1)** + 29 000 **(1)**)					228 492	
less sales returns					4 200	**(1)**
					224 292	
less cost of sales						
Inventory at 1 January 2013			29 600	**(1)**		
Purchases	165 120	**(1of)**				
less returns	4 500	**(1)**	160 620			
			190 220			
Inventory at 31 December 2013			35 200	**(1)**	155 020	
Gross profit					69 272	
add Discount received					8 200	**(1)**
					77 472	
Less Discount allowed	8 600	**(1)**				
Expenses	18 780	**(1of)**				
Wages	10 000	**(1)**				
Bad debts	2 200	**(1)**				
Depreciation (60 + 20 – 74)	6 000	**(2)**			45 580	
Profit for the year					31 892	**[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]