

## **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.

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1 (a) Sales ledger control account

		\$			\$
1 Jan	Balance b/d	33000		1 Jan–31 Dec	Bank
					Discount allowed
					Returns inwards
					Bad debts
1 Jan–31 Dec	Sales	<u>169492</u> (1of)		31 Dec	Balance c/d
		<u>202492</u>			
2014					
1 Jan	Balance b/d	20832 (1)			

[6]

(b) Purchases ledger control account

		\$			\$
1 Jan–31 Dec	Bank	155690 (1)		1 Jan	Balance b/d
	Discount rec	8200 (1)			
	Returns out	4500 (1)		1 Jan–31 Dec	Purchases
	Balance c/d	<u>14930</u>			
		<u>183320</u>			<u>165120</u> (1of)
					<u>183320</u>
				2014	
				1 Jan	Balance b/d
					14930 (1of)

[5]

(c) Expenses account

		\$			\$
1 Jan	Bank	26100 (1)		1 Jan	Balance b/d
				31 Dec	Income statement
					Balance c/d
		<u>26100</u>			<u>1720</u>
					<u>26100</u>
2014					
1 Jan	Balance b/d	1720 (1)			

[4]

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

	\$	\$	\$
Revenue (169492 (1of) + 30000 (1) + 29000 (1))			228492
less sales returns			<u>4200</u> (1)
			224292
less cost of sales			
Inventory at 1 January 2013		29600 (1)	
Purchases	165120 (1of)		
less returns	<u>4500</u> (1)	<u>160620</u>	
		190220	
Inventory at 31 December 2013		<u>35200</u> (1)	<u>155020</u>
Gross profit			69272
add Discount received			<u>8200</u> (1)
			77472
Less Discount allowed	8600 (1)		
Expenses	18780 (1of)		
Wages	10000 (1)		
Bad debts	2200 (1)		
Depreciation (60 + 20 – 74)	<u>6000</u> (2)		
Profit for the year			<u>45580</u>
			<u>31892</u> [15]
			[Total: 30]

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2 (a)	Dr \$	Cr \$
(i) Equipment Arcadia Limited	14 000 (1)	14 000 (1) [2]
(ii) Income Statement (1) Provision for depreciation – Fittings & Fixtures (1)	51 200 (1)	51 200 (1) [4]
(iii) Income Statement (1) Provision for depreciation – Equipment (1)	6 100 (1)	6 100 (1) [4]
(iv) Disposals Equipment	8 000 (1)	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]**

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3 (a) \$

Direct materials	90 000	(1)
Direct labour	67 500	(1)
Variable production overhead	<u>45 000</u>	(1)
Marginal cost of 15 000 units	<u>202 500</u>	

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	<u>3.00</u>	(1)
Marginal cost	<u>13.50</u>	(1)

[4]

(b) \$

Direct materials	90 000	(1)
Direct labour	67 500	(1)
Variable production overhead	45 000	(1)
Fixed production overhead	<u>60 000</u>	(1)
Absorption cost of 15 000 units	<u>262 500</u>	

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)
	<u>4.00</u>	(1)
Marginal cost	<u>13.50</u>	(1)

[5]

(c) \$

Revenue – 13 000 × \$26	338 000	(1)
Variable cost of sales – 13 000 × \$13.50	<u>(175 500)</u>	(1of)
Contribution	162 500	(1of)
Fixed production overhead	(60 000)	(1)
Other fixed overheads	<u>(25 000)</u>	(1)
Profit	<u>77 500</u>	(1of)

[6]

(d) \$

Revenue – 13 000 × \$26	338 000	(1)
Cost of sales – 13 000 × £17.50	<u>(227 500)</u>	(1of)
Gross profit	110 500	(1of)
Other fixed overheads	<u>(25 000)</u>	(1)
Profit	<u>85 500</u>	(1of)

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<b>(e)</b>		<b>\$</b>	
	Marginal cost profit	77 500	
	Inventory <b>(1)</b> – 2 000 units @ \$4 per unit <b>(1)</b>	<u>8 000</u>	
	Absorption cost profit	<u>85 500</u>	<b>[2]</b>

- (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]**