UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced Subsidiary Level and GCE Advanced Level

# MARK SCHEME for the October/November 2011 question paper for the guidance of teachers

## 9706 ACCOUNTING

**9706/21** 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 must be read in conjunction with the question papers and the report on the examination.

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UNIVERSITY of CAMBRIDGE
International Examinations

**1 (a)**

Iqbal

Income Statement (Trading and Profit and Loss Account)

For the year ended 31 March 2011

| | $ | $ | $ |
|---|---|---|---|
| Revenue (sales) (85 000 – 7 200 **(1)** + 8 300 **(1)** + 1 400 **(1)** + 24 000 **(1)**) | | | 111 500 |
| Opening Inventory (Stock) | 8 000 | | |
| Ordinary goods purchased (Purchases) (37 000 – 3 400 **(1)** – 2 400 **(1)** + 3 700 **(1)** + 500 **(1)**) | 35 400 | | |
| | | 43 400 | |
| Less Closing Inventory (Stock) | | 9 200 | |
| Cost of Sales | | | 34 200 |
| Gross Profit | | | 77 300 |
| Discounts received | | 500 **(1)** | |
| | | | 500 |
| | | | 77 800 |
| Less Expenses | | | |
| Motor expenses | | 3 800 **(1)** | |
| Rent | | 5 800 **(1)** | |
| Rates | | 1 700 **(1)** | |
| Wages | | 18 000 **(1)** | |
| Discounts allowed | | 1 400 **(1)** | |
| Loan interest | | 700 **(1)** | |
| Provision for doubtful debts | | 249 **(1)** | |
| Depreciation – Fixtures and fittings | | 8 000 **(1)** | |
| Depreciation – Delivery van | | 2 500 **(1)** | |
| | | | 42 149 |
| Profit for the year (Net Profit) | | | 35 651 |
| | | | [18] |

**(b)**

Iqbal

Statement of Financial Position (Balance Sheet) at 31 March 2011

| | $ | $ | $ | |
|---|---|---|---|---|
| **Non-Current (Fixed) Assets** | | | | |
| Fixtures | | | 68 000 | |
| Delivery van | | | 7 500 | |
| | | | 75 500 | **(1)** |
| **Current Assets** | | | | |
| Inventory (stock) | | 9 200 **(1)** | | |
| Trade receivables (debtors) | | 8 051 **(1)** | | |
| Rent | | 600 **(1)** | | |
| Rates | | 300 **(1)** | | |
| Cash and cash equivalents (bank) | | 31 350 **(1)** | | |
| | | 49 501 | | |
| **Current Liabilities** | | | | |
| Trade payables (creditors) | 3 700 **(1)** | | | |
| Loan interest | 700 **(1)** | | | |
| | | 4 400 | | |
| Working Capital | | | 45 101 | |
| Total Assets less current liabilities | | | 120 601 | |
| **Non-Current (long term) Liabilities** | | | | |
| Loan | | 14 000 **(1)** | | |
| | | | 14 000 | |
| | | | 106 601 | |
| | | | | |
| **Financed by** | | | | |
| Capital | | | 98 350 | **(1)** |
| Profit for the year (Net Profit) | | | 35 651 | **(1of)** |
| | | | 134 001 | |
| Drawings | | | 27 400 | **(1)** |
| | | | 106 601 | |

[12]

**[Total 30]**

**2 (a)**

| | | | | |
|---|---|---|---|---|
| 16 800 | × 1% | = | 168 **(1)** | |
| 12 600 | × 2% | = | 252 **(1)** | |
| (7 100 – 700) | × 3% | = | 192 **(2)** | |
| 1 300 | × 10% | = | 130 **(1)** | |
| | | | 742 **(1)** | [6] |

**(b) (i) Must have correct narrative to gain marks.**

Provision for Doubtful Debts

| | $ | | | $ | |
|---|---|---|---|---|---|
| Income Statement | 58 | **(1of)** | Balance b/d | 800 | **(1)** |
| Balance c/d | 742 | **(1of)** | | | |
| | 800 | | | 800 | |

[3]

**(ii)**

Bad Debts

| | $ | | | $ | |
|---|---|---|---|---|---|
| Debbie | 700 | **(1)** | | | |
| Harvey | 450 | **(1)** | Income Statement **(1)** | 1500 | **(1)** |
| Others | 350 | **(1)** | | | |
| | 1500 | | | 1500 | |

[5]

**(iii)**

Harvey

| | $ | | | $ | |
|---|---|---|---|---|---|
| Balance b/d | 600 | **(1)** | Bank | 150 | **(1)** |
| | | | Bad Debts | 450 | **(1)** |
| | 600 | | | 600 | |

[3]

**(c)**

Balance Sheet (extract) at 31 December 2010

| | $ | | |
|---|---|---|---|
| Trade receivables | 37 100 | | |
| Less provision for doubtful debts | 742 | **(1of)** | |
| | 36 358 | **(1of)** | [2] |

**(d) (i)** ($37 100 × 4%) = $1484 – $742 = $742 [2]

**(ii)** Reduce net profit for the year **(1)**
Reduce trade receivables/current assets/balance sheet total **(1)** [2]

**(iii)** Prudence concept **(1)** Current provision $742 is 2% of the debtors **(1)** Actual bad debts are $1500 **(1)** This may suggest the provision is insufficient. **(1)** [4]

**(e)** Past experience
Specific knowledge about a customer
The state of the economy
Consistency concept
Industry average
Length of time
Size of debtors
Comparing with previous years or with competitors. (3 × 1 mark) [3]

**[Total 30]**

**3 (a)**

| | **Machining** | | **Assembly** | | **Maintenance** | | **Canteen** | |
|---|---|---|---|---|---|---|---|---|
| Brought forward | 143 500 | | 154 700 | | 165 800 | | 176 900 | |
| Maintenance | 99 480 | **(1)** | 49 740 | **(1)** | (165 800) | **(1)** | 16 580 | |
| Canteen | 77 392 | **(1)** | 116 088 | **(1)** | | | (193 480) | **(1)** |
| Total | 320 372 | **(1)** | 320 528 | **(1)** | | | | |

[8]

**(b)** Machining Department = 320 372 **(1of)** / 18 845 **(1)** = $17.00 **(1of)** per machine hour **(1)**

Assembly Department = 320 528 **(1of)** / 20 350 **(1)** = $15.75 **(1of)** per labour hour **(1)** [8]

**(c)**

| | $ | |
|---|---|---|
| Materials | 12.00 | **(1)** |
| Labour | 56.00 | **(1)** |
| Overheads – machining (17.00 × 3) | 51.00 | **(1of)** |
| Overheads – assembly (15.75 × 4) | 63.00 | **(1of)** |
| Cost per unit | 182.00 | **(1of)** |

[5]

**(d)** 182 **(1of)** × 1.25 **(1)** = $227.50 **(1of)** [3]

**(e)** 640 900 **(1)** / (227.50 **(1of)** – 68.00 **(1of)**) = 4019 (accept 4018.18) units **(1of)** [4]

**(f)** Assumes:
Everything produced is sold.
Selling price is linear.
Variable costs are linear.
Fixed costs remain unchanged.
A single product firm.
Product mix remains constant.
No semi variable costs.
No external factors.
Is based on estimates. (2 × 1 mark) [2]

**[Total 30]**