CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 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 October/November 2014 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

1 **(a)** Nother Limited's Manufacturing Account for the year ended 31 March 2014

		$		$	
Raw Material				360	
Inventory at 1 April 2013				1 896	
Purchases				2 256	
Inventory at 31 March 2014				(300)	**(1cf)**
Cost of raw material consumed				1 956	**(1)**
Manufacturing wages (1250 + 40)				1 290	**(1of) label needed**
Prime cost				3 246	
Factory expenses (780 **(1)** + 112 **(1)**)		892			
Provision for depreciation	Premises	10	**(1)**		
	Machinery	18	**(2)** or 21 **(1)**		
Loss on sale of machine (44 – 24 –14)		6	**(1cf)**	926	
				4 172	**(1) must be minus**
Work in progress (210 – 220)				(10)	
Factory cost of production				4 162	

Own figure marks are awarded with no aliens.
Treat revenue as an alien if used in the manufacturing account, lose prime cost mark but all other marks are available – potential maximum 9 marks.
Award marks for raw material cost, manufacturing wages and overheads irrespective of direction.
Work in progress must be the final figure to be rewarded. **[10]**

(b) Nother Limited's Income Statement for the year ended 31 March 2014

	$		$		
Revenue (5054 –14)				5 040	**(1cf)**
Finished goods					
Inventory at 1 April 2013	432				
Cost of production	4 162	**(1of)**			
	4 594				
Inventory at 31 March 2014	(480)			4114	
Gross profit **(must be labelled)**				926	**(1of)**
Administrative expenses (80 **(1)** – 8 **(1)**)			72		
Sales expenses (416 **(1)** + 56 **(1)**)			472		
Bad debts written off			16		
Increase in provision for doubtful receivables (42 **(1)** – 36 **(1)**)			6	566	
Profit for the year **(must be labelled)**				360	**(1of)**

Own figure marks are awarded with no aliens.
If retained earnings are entered before profit for the year treat as alien therefore no own figure marks for profit for the year.
Loss on disposal is not to be treated as an alien in the expenses. **[10]**

(c) (i) Direct costs – can be directly traced to a product unit. **(1)**

Examples – Direct materials **(1)**
Direct labour **(1)**
Direct expenses **(1)**

Maximum 1 for example **[2]**

(ii) Indirect costs – cannot be economically **(1)** traced to a product unit. **(1)**

Examples – Indirect wages **(1)**
Indirect materials **(1)**
Depreciation of factory machinery **(1)**
Insurance **(1)**
Power **(1)**
Other suitable examples

Maximum 2 for examples **[4]**

(iii) Prime cost – **total** of all direct expenses. **(1) Must refer to total.**

Direct materials + direct labour (+ direct expenses) **(1)** **[2]**

(iv) Production cost – **total** cost of producing the goods in the factory. **(1)**
Must refer to total.

Prime cost + factory overheads ± work in progress adjustment **(1)**
Must include work in progress. **[2]**

[Total: 30]

2 (a)

Bill and Charles
Calculation of partnership profit for the year ended 31 December 2013

	$	
Decrease in current account balances:	(14 840)	**(1cf)**
Bill ($17 000 – 2160)	(20 800)	**(1cf)**
Charles ($18 000 + 2800)	(35 640)	
Add: drawings (2 × $24 000)	48 000	**(1 + 1)**
Profit for the year	12 360	**(1of) no aliens**

Alternative answer – Profit for the year – 83 640 (4)
If calculation includes capital accounts treat as alien and no own figure marks for profit for the year.
If only one partner is considered maximum of 2 marks (opening balance and drawings).
Award 2 marks for drawings irrespective of direction. **[5]**

(b)

	Bill		Charles			Bill		Charles	
	$		$			$		$	
Goodwill	28 800	**(1)**	19 200	**(1)**	Balance b/d	144 000		60 000	**(1 both)**
Balance c/d	147 200		56 800		Goodwill	32 000	**(1)**	16 000	**(1)**
	176 000		76 000			176 000		76 000	
					Balance b/d	147 200	**(1of)**	56 800	**(1of)**

Bill's balance b/d may be shown as 120 000 + 24 000. Still award 1 mark for both partners' opening balances. Must be T account format or three column running balance.

Alternative answer

Capital Accounts – Bill

	$			$	
Goodwill	28 800	**(1)**	Balance b/d	144 000	
Balance c/d	147 200		Goodwill	32 000	**(1)**
	176 000			176 000	
			Balance b/d	147 200	**(1of)**

Capital Accounts – Charles

	Charles			Charles	
	$			$	
Goodwill	19 200	**(1)**	Balance b/d	60 000	**(1 both)**
Balance c/d	56 800		Goodwill	16 000	**(1)**
	76 000			76 000	
			Balance b/d	56 800	**(1of)**

(c)

				$	
Profit for the year				12 000	**(1cf)**
Add interest on drawings					
Bill	1 320				
Charles	1 320			2 640	**(1cf for both)**
Less				14 640	
Interest on capital					
Bill	5 888 **(1of)**				
Charles	2 272 **(1of)**	8 160			
Salary Bill	3 000				
Charles	2 600	5 600 **(1cf)**		(13 760)	
				880	
Share of profit					
Bill (3/5)		528 **(1of)**			
Charles (2/5)		352 **(1of)**			
				880	

Interest on capital

Award own figure marks if closing capital account balance from (b) × 8% × 6 months.

Award '0' marks if interest on capital is calculated on opening balances – Bill – 5760 Charles 2400.

Own figure marks for share of profit/loss must be candidates own figure shared in the correct ratio.

[7]

(d)

Current account – Bill

	$			$	
Interest on drawings	1 320	**(1of)**	Balance b/d	2 160	**(1)**
Drawings	12 000	**(1)**	Salary	3 000	**(1of)**
			Interest on capital	5 888	**(1of)**
			Share of profit	528	**(1of)**
			Balance c/d	1 744	
	13 320			13 320	
Balance b/d	1 744	**(1of) no aliens**			

Interest on drawings, interest on capital, salary and share of profit/loss must relate to the candidates own figures from part (c). **[7]**

(e) (i) To try to limit partners' drawings **(1)**
Reward partner with lower drawings **(1)**
Ensure cash is retained in the business **(1)**

Maximum 2 **[2]**

(ii) Reward the partner for business investment **(1)**
Encourage partners to introduce more capital **(1)**
Reward partners for the lost opportunity cost of capital invested **(1)**

Maximum 2 **[2]**

[Total: 30]

3 (a)

		Total	Machining	Assembly	Stores	Canteen
Indirect wages	**(1cf)**	232 000	61 867	123 733	30 933	15 467
Machine maintenance	**(1cf)**	94 000	87 935	6 065		
Machine insurance	**(1cf)**	9 020	6 380	2 640		
Rent and rates	**(1cf)**	49 600	19 840	22 320	4 960	2 480
Buildings insurance	**(1cf)**	12 800	5 120	5 760	1 280	640
Machine depreciation	**(1cf)**	26 600	18 815	7 785		
		424 020	199 957	168 303	37 173	18 587
		(1of)	5 576	10 225	2 788	(18 587)
					39 961	
		(1of)	33 126	6 835	(39 961)	
			238 659	185 361		

All marks are for the complete line.
Own figure marks for Canteen and Stores must be in correct ratios. **[8]**

(b) Machining: [$238 659/46 400] **(1of)** = $5.14 [per machine hour] **(1 for narrative)**

Assembly: [$185 361/28 600] **(1of)** = $6.48 [per direct labour hour] **(1 for narrative)**

Do not accept 'per hour' for narrative marks. **[4]**

(c)

	Machining		Assembly	
Actual overhead ($)	239 110		192 860	
Absorbed $5.14 × 49 120	252 477			
Absorbed $6.48 × 28 150			182 412	
	$13 367	**(1of)**	$10 448	**(1of)**
	Over absorbed	**(1of)**	Under absorbed	**(1of)**

[4]

(d) Machining department
$451 more overhead incurred than budgeted **(1)**
2720 more machine hours worked than were budgeted **(1)**

Assembly department
$7499 more overhead incurred than budgeted **(1)**
450 fewer labour hours worked **(1)**

One mark per department.
To award marks there must be reference to the individual departments (do not reward generic answers). **[2]**

(e)

	$	
Direct materials	14.10	**(1)**
Direct labour machining ($7.80 × 50/60)	6.50	**(1)**
Direct labour assembly ($6.30 × 12/60)	1.26	**(1)**
Overheads machining department ($5.14 × 30/60)	2.57	**(1of)**
Overheads assembly department ($6.48 × 12/60)	1.30	**(1of)**
	25.73	
× 250 units =	6432.50	
Mark-up $6432.50 × (35/65)	3463.65	**(1of)**
Total invoice value	9896.15	

Alternative answer

	$	
Direct materials	3525.00	**(1)**
Direct labour machining	1625.00	**(1)**
Direct labour assembly	315.00	**(1)**
Overheads machining department	642.50	**(1of)**
Overheads assembly department	324.00	**(1of)**
	6431.50	
Mark-up $6431.50 × (35/65)	3463.12	**(1of)**
Total invoice value	9894.62	

Own figure marks for overheads must relate to the candidates' answer to part (e).
Allow for roundings. **[6]**

(f) **1.** Allocation – Directly attributable costs **(1)** are allocated to the relevant department. **(1)**

2. Apportionment – Costs that **cannot** be directly attributed to a department **(1)** are apportioned on an equitable basis. **(1)**

3. Absorption – **Total** costs **(1)** that have been allocated and apportioned to a department are absorbed into products on the basis of the product's use of the overheads. **(1)** **[6]**

[Total: 30]