**UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS**

GCE Advanced/Advanced Subsidiary Level

# MARK SCHEME for the November 2005 question paper

## 9706 ACCOUNTING

**9706/02** **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*.

The minimum marks in these components needed for various grades were previously published with these mark schemes, but are now instead included in the Report on the Examination for this session.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

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UNIVERSITY of CAMBRIDGE
International Examinations

1 (a) Bank balance is $43 000.

(b) O'Riley and Co plc
Trading, Profit and Loss and Appropriation account for the year ended 30 April 2005

| | $ | $ | $ | $ | |
|---|---|---|---|---|---|
| Sales | | | | 605 000 | |
| less Returns | | | | 15 000 | |
| | | | | 590 000 | 1 |
| less Cost of Sales | | | | | |
| Opening stock | | 75 000 | | | |
| Purchases | 380 000 | | | | |
| less Returns | 10 000 | 370 000 | | | 1 |
| | | 445 000 | | | |
| less Closing stock | | 85 000 | | 360 000 | |
| Gross Profit | | | | 230 000 | 1 OF |
| less expenses | | | | | |
| Provision for doubtful debts | | | 425 | | 1 |
| Bad debts written off | | | 3 000 | | 1 |
| Wages | | 80 000 | | | |
| add accrued wages | | 2 000 | 82 000 | | 1 |
| Other expenses | | 60 000 | | | |
| less other expenses prepaid | | 3 300 | 56 700 | | 1 |
| Provision for depreciation on premises | | | 10 400 | | 1 |
| Provision for depreciation on equipment | | | 28 800 | | 1 |
| Debenture interest | | | 5 000 | | 1 |
| Loan interest | | | 2 000 | 188 325 | 1 |
| Net Profit | | | | 41 675 | 1 OF |
| Proposed dividends - ordinary | | 13 600 | | | |
| preference | | 4 800 | 18 400 | | 1 |
| Transfer to General Reserve | | | 20 000 | 38 400 | |
| Retained profit for the year | | | | 3 275 | 1 OF |
| Balance b/f | | | | 87 200 | |
| Retained profit c/f | | | | 90 475 | |
| | | | | | (14) |

As some candidates may have interpreted "Trading account" to include only stock items, purchases and sales, it was decided that marks for this section would be awarded only for such items, giving a gross profit. However, for inclusion in the Income and Expenditure account, candidates would be expected to calculate a full net profit.

**(c)** Balance Sheet as at 30 April 2005

| | $ | $ | $ | $ | |
|---|---|---|---|---|---|
| Fixed Assets | | Cost | Dep'n | NBV | |
| Premises | | 520 000 | 114 400 | 405 600 | |
| Equipment | | 200 000 | 156 800 | 43 200 | |
| | | 720 000 | 271 200 | 448 800 | 1 |
| Current Assets | | | | | |
| Stock | | 85 000 | | | |
| Debtors | 57 000 | | | | |
| less provision for doubtful debts | 1 425 | 55 575 | | | 1 |
| Bank | | 113 200 | | | 1OF |
| Prepayment | | 3 300 | 257 075 | | |
| Creditors due within one year | | | | | |
| Trade Creditors | | 43 000 | | | |
| Accrual | | 2 000 | | | |
| Dividends due | | 18 400 | 63 400 | | 1 |
| Net Current Assets | | | | 193 675 | 1 |
| | | | | 642 475 | |
| Creditors due after one year | | | | | |
| 5% Debentures | | | 100 000 | | |
| Loan | | | 25 000 | 125 000 | 1 |
| | | | | 517 475 | |
| Financed by | | | | | |
| Issued Share Capital | | | | | |
| 340 000 ordinary shares of $0.50 each | | | | 170 000 | 1 |
| 80 000 6% preference shares of $1 each | | | | 80 000 | 1 |
| | | | | 250 000 | |
| Reserves | | | | | |
| Share premium | | | 82 000 | | 1 |
| Profit and Loss | | | 90 475 | | 1 |
| General reserve | | | 95 000 | 267 475 | 1 |
| | | | | 517 475 | |
| | | | | | (11) |

(d) Share premium is the amount above the face value of a share at which it may be issued. Example: a $1 share may be issued at $1.05. The $1 is credited to the share capital account whilst the $0.05 is credited to the share premium account. It is a capital reserve and may be used as follows:

- (i) to pay up unissued shares as fully paid bonus shares.
- (ii) to write off preliminary expenses on formation of the company
- (iii) to write off expenses incurred in share issues.
- (iv) to provide any premium payable on redemption of shares or debentures.

Up to 4 points (4)

A2 (a) Accumulated fund at 1 November 2004

| | Dr | Cr | | |
|---|---|---|---|---|
| | $ | $ | | |
| Bank | 5 950 | | | |
| Subscriptions in arrears | 550 | | | |
| Subscriptions in advance | | 100 | | |
| Stock | 6 390 | | | |
| Creditors | | 4 235 | | |
| Dance | | 50 | | |
| Equipment | 8 000 | | **2 marks** | |
| Depreciation | | 2 000 | **per pair** | |
| Accumulated fund | | 14 505 | | |
| | 20 890 | 20 890 | | (4) |

(b) Restaurant Trading Account for the year ended 31 October 2005

| | | $ | $ | $ | $ | | |
|---|---|---|---|---|---|---|---|
| Sales | | | | | 62 100 | | |
| Less cost of sales | | | | | | | |
| Opening stock | | | | 6 390 | | | |
| Purchases | | | 35 500 | | | | |
| Plus | 1 | 4 785 | | | | | |
| Less | 1 | 4 235 | 550 | 36 050 | | | |
| | | | | 42 440 | | | |
| Less closing stock | | | | 7 520 | 34 920 | | |
| Gross profit | | | | | 27 180 | 1of | |
| General expenses | | | | 2 100 | | 1 | |
| Wages | | | | 7 800 | | 1 | |
| Depreciation | | | | 550 | 10 450 | 1 | |
| Net profit | | | | | 16 730 | | (6) |

(c) Income & Expenditure account for year ended 31 October 2005

| | $ | $ | $ | | |
|---|---|---|---|---|---|
| INCOME | | | | | |
| Subscriptions = 17800-550+650+100-450 | | | 17 350 | 5 | |
| Restaurant profit | | | 16 730 | 1of | |
| | | | 34 080 | | |
| EXPENDITURE | | | | | |
| Annual dance = 3750-50+125 | | 3 825 | | 3 | |
| Wages = 2/3 x 23400 | | 15 600 | | 3 | |
| Repairs | | 4 320 | | | |
| General expenses = 5420-2100 | | 3 320 | | 2 | |
| Interest on loan = 5% of 60000 | | 3 000 | | 2 | |
| Depreciation - clubhouse | 1 300 | | | 1 | |
| Depreciation - equipment | 2 800 | 4 100 | 34 165 | 2 | |
| Deficit | | | 85 | 1of | |
| | | | | | (20) |
| | | | Total marks | | 30 |

CHECK

| | $ | $ | $ |
|---|---|---|---|
| Balance Sheet | | | |
| Fixed assets | 65000 | 1300 | 63700 |
| | 15400 | 5350 | 10050 |
| | | | 73750 |
| Current assets | | | |
| Stock | 7520 | | |
| subs | 650 | | |
| Cash | 860 | 9030 | |
| | | | |
| Current liabilities | | | |
| Creditors | 4785 | | |
| Subs | 450 | | |
| Interest | 3000 | | |
| Dance | 125 | 8360 | 670 |
| | | | 74420 |
| | | | |
| Acc fund | | | 14505 |
| Loan | | | 60000 |
| | | | 74505 |
| deficit | | | 85 |
| | | | 74420 |

A3 Workings

| | $ | | | |
|---|---|---|---|---|
| Selling price | 600 | Monthly | | |
| Direct materials | 100 | Assumed production (units) | | 2000 |
| Direct labour | 90 | Actual production (units) | | 2400 |
| Variable overheads | 50 | Sales (units) | | 1800 |
| Fixed overheads | 160 | Fixed admin overheads | | $80 000 |
| Total overheads | 400 | Variable sales overhead | 10% | Sales value |
| | | Fixed sales overhead | | $120 000 |

Absorption Costing

| September 2005 | $000 | $000 | |
|---|---|---|---|
| Opening stock | | Nil | - |
| Production costs | | | |
| Direct materials | 240 | | |
| Direct labour | 216 | | |
| Variable overheads | 120 | | |
| Fixed overheads | 384 | 960 | 1 see |
| less closing stock | | 240 | 1 marks |
| Production cost of sales | | 720 | 1 below |
| OR (1800 x 400) | | | |

Marginal costing

| | | | |
|---|---|---|---|
| Opening stock | | Nil | |
| Variable production costs | | | |
| Direct materials | 240 | | |
| Direct labour | 216 | | |
| Variable overheads | 120 | 576 | 1 see |
| less closing stock | | 144 | 1 marks |
| Variable production cost of sales | | 432 | 1 below |
| OR (1800 x 240) | | | |

Over-absorption of overheads

| | | |
|---|---|---|
| Production volume | 2400 units | |
| Fixed overheads per unit | $160 | |
| Fixed overheads absorbed | $384 000 | 1 see marks |
| Fixed overheads incurred | $320 000 | 1 below |
| Over-absorbed | $64 000 | |

ANSWERS

| (a) (i) | | | (a) (ii) | | | |
|---|---|---|---|---|---|---|
| Absorption | | | Marginal | | | |
| Sales units | 1800 | | Sales units | 1800 | | |
| | $000 | | | $000 | | |
| Sales value | 1440 | 1 | Sales value | 1440 | | |
| Production C of S | 720 | 3 | VC of production | 432 | 3 | |
| Over-absorption | 64 | 2 | V sales o/heads | 144 | 2 | |
| Gross profit | 784 | 1 | | 576 | | |
| | | | Contribution | 864 | 1 | |
| | | | less fixed costs | | | |
| Fixed admin overheads | 80 | | Production | 320 | | |
| Variable sales overheads | 144 | 1 | Admin | 80 | | |
| Fixed sales overheads | 120 | | Sales | 120 | | |
| | 344 | 1 | | 520 | 1 | |
| Net profit | 440 | 1 | Net profit | 344 | 1 | |
| | | | | | | **(18)** |

(b)

| | $000 | | |
|---|---|---|---|
| Profit - absorption | 440 | Quantity produced | 2400 |
| Profit - marginal | 344 | Quantity sold | 1800 |
| Difference | 96 | Closing stock | 600 |

1 1 1

Stock has increased by 600 units which accounts for 600 x $160 of fixed costs, a total of $96 000
1

**(4)**

(c)

| Fixed costs | $000 | | Sales price per unit | | $800 | 1 |
|---|---|---|---|---|---|---|
| Production overhead | 320 | 1 | less VC | | | |
| Admin overhead | 80 | 1 | DM | 100 | | |
| Sales overhead | 120 | 1 | DL | 80 | | |
| | 520 | | Prod o/h | 60 | | |
| | | | Sales o/h | 80 | 320 | 1 |
| | | | Unit contribution | | $480 | 1 |

Break-even = FC/c = $520 000/480 = 1,084 units **2 OF**

**(8)**

**Total marks 30**