
ACCOUNTING

9706/02

Paper 2 Structured Questions

For Examination from 2016

SPECIMEN MARK SCHEME

1 hour 30 minutes

MAXIMUM MARK: 90

This document consists of **11** printed pages and **1** blank page.

1 (a) Prepare for Ali's business in as much detail as possible:

(i) the income statement for the year ended 31 December 2014

[5]

Income statement for the year ended 31 December 2014

	\$	
Revenue (248 400 / 46 × 100 (1))	540 000	(1of)
Less Cost of sales	<u>248 400</u>	
Gross profit	291 600	(1of)
Expenses (balancing figure)	<u>194 400</u>	(1of)
Profit for year (540 000 × 18%)	<u>97 200</u>	(1of)

of = candidate's own figure

(ii) the statement of financial position at 31 December 2014.

[6]

Statement of financial position at 31 December 2014

	\$	
Assets		
Non-current assets (balancing figure)	1 752 193	(1of)
Current assets		
Inventory	38 000	
Trade receivables (540 000 (1of) × 40 / 365 (1))	59 178	
Cash and cash equivalents	<u>30 308</u>	
	<u>127 486</u>	
Total assets	<u>1 879 679</u>	
Capital and liabilities		
Capital ((97 200 (1of) / 5.4 × 100) – 1 000 000)	800 000	(1of)
Non-current liabilities		
Loan	1 000 000	
Current liabilities		
Trade payables (127 486 / 1.6)	<u>79 679</u>	(1of)
Total liabilities	<u>1 879 679</u>	

(b) State two advantages and two disadvantages of ratio analysis.

[4]

Two advantages of ratio analysis:
 allows year to year comparisons
 allows business to business comparison
 helps managers set targets to work to.

Two disadvantages of ratio analysis:
 does not give cause of increase/decrease in ratio
 historical
 does not reflect economic climate
 does not allow for seasonal variations
 no two businesses are identical.

Accept any reasonable alternative.

(1 mark) × two advantages (max 2)

(1 mark) × two disadvantages (max 2)

(c) Assess the performance of the business in respect of liquidity and profitability.

[7]

Level	Description	Marks
Level 3	Well-supported judgement, making reference to both liquidity and profitability.	5–7
Level 2	Judgement made with some support referencing both liquidity and profitability.	3–4
Level 1	Judgement made with some support referencing either liquidity or profitability, or with very limited reference to both.	1–2
Level 0	No creditable response.	0

Answers could include:

- the current ratio has improved slightly which is a positive indication for the business, however the trade receivables turnover ratio has worsened
- this could indicate that Ali's credit control procedures are not as good as they were last year, which has led to an increase in the total trade receivables. This is likely to have a negative impact on Ali's bank balance as cash is not being collected as quickly as last year. Thus the increase in the current ratio may not be as good as it seems
- both the gross profit margin and net profit margin have improved. This could be a result of Ali buying from a cheaper supplier or increasing the selling price per unit for his products
- the increase in Ali's net profit margin could have resulted from improved control of the business expenses
- overall conclusion that there is some improvement in Ali's business performance, but there are some areas which he needs to investigate further to improve.

Accept any reasonable alternative.

(d) State one advantage of maintaining a sales ledger control account.

[1]

Responses could include:

- to help detect errors in the ledger
- to enable the financial statements to be prepared quickly
- to help deter fraud
- to give a summary of transactions involving debtors
- to give a summary of total trade receivables.

Accept any reasonable alternative.

(1 mark) × one advantage

(e) Calculate the correct balance on the sales ledger control account after making the appropriate adjustments. [7]

Corrected sales ledger control account

	\$			\$
Opening balance	64 850	Purchase ledger control		
Discount allowed	200 (1)	(Siri)	800 (1)	
Sales (journal undercast)	500 (1)	Sales (sale or return)	760 (1)	
Sales (Bernie)		Corrected balance c/d	64 350 (1of)	
(950 (1) – 590 (1))	<u>360</u>			
	<u>65 910</u>			<u>65 910</u>
Balance b/d	64 350			

[Total: 30]

- 2 (a) State two reasons why a business depreciates its non-current assets. [2]

Responses could include:

- a business depreciates its non-current assets in order to match the loss in value of those assets with the revenue/profit generated by them
- to ensure that the statement of financial position shows a true and fair view of those assets

Accept any reasonable alternative.

(1 mark) × two reasons

- (b) Explain with examples why a business uses different rates of depreciation for different types of assets. [3]

Responses could include:

- different rates of depreciation are used because non-current assets lose their value at different rates
- examples:
 - a motor vehicle will lose more value in the early years of its life hence the reducing balance method is more appropriate
 - the loss in value of plant and machinery will be evenly spread over its life (assuming normal usage), thus straight line is more appropriate.

Accept any reasonable alternative.

Developed explanation (2–3 marks)

Basic explanation (1 mark)

- (c) Calculate the depreciation charge for the year ended 30 June 2015 in respect of the plant and machinery. [3]

Calculation of the depreciation charge on plant and machinery
for the year ended 30 June 2015

	\$000	
Cost	500	
Addition	180	
Cost of disposal	<u>(40)</u>	(1)
	<u>640</u>	(1)

Depreciation charge = \$640 000 × 10% = \$64 000 (1of)

- (d) Calculate the rate of depreciation used by Annette for motor vehicles. [4]

Calculation of the rate of depreciation for motor vehicles

	\$
Cost	300 000
Accumulated depreciation at start of year (\$100 000 – 50 000)	<u>(50 000)</u>
Net book value at start of year	<u>250 000</u>

\$300 000 – (100 000 – 50 000) = \$250 000 (1)

Depreciation charge = \$50 000 (1) ÷ \$250 000 (1of) × 100 = 20% (1of)

- (e) Advise Annette whether or not she should do this, giving two reasons for your answer. [3]

Example:

Annette should not change her method of depreciation each year. This is against the consistency principle. This will make comparison between years of little benefit.

(1 mark) × correct advice

(1 mark) × two valid reasons

[Total: 15]

- 3 (a) State two reasons why a partner's current account may have a debit balance. [2]

Responses could include:

- a partner's current account may have a debit balance because the partner may have drawn more from the business than the profits allocated to the partner
- the business may have made a loss.

Accept any reasonable alternative.

(1 mark) × two valid reasons

- (b) Explain why a partner's capital account is credited with goodwill and any revaluation of assets when they retire. [3]

Example:

When a partner leaves a business it is fair that they are rewarded for their efforts in building the partnership. Therefore any increase in goodwill and value of assets should be credited to their capital account when they retire from the partnership, and can be taken by them in cash.

Developed explanation (2–3 marks)

Basic explanation (1 mark)

- (c) Prepare the revaluation account for the partnership. [3]

Revaluation account

	\$000		\$000
Book value of non-current assets	300	Car taken by Stan	7 (1)
Capital a/cs Prof on realisation – Ben	9 (1of	New value	
– Dan	9 all 3)	of non-current assets	320 (1)
– Stan	<u>9</u>		
	<u>327</u>		<u>327</u>

- (d) Prepare the capital accounts of Ben and Dan. [3]

Capital accounts of Ben and Dan

	Ben	Dan		Ben	Dan
	\$000	\$000		\$000	\$000
Goodwill	18	18 (1)	Balance b/d	140	140
Balance c/d	143	143	Goodwill	12	12 (1)
			Profit on revaluation	<u>9</u>	<u>9 (1of)</u>
	<u>161</u>	<u>161</u>	Bal b/d	<u>161</u>	<u>161</u>
				143	143

(e) Calculate the amount paid to Stan from the partnership bank account. [4]

	\$000	
Capital account balance	140	}
Current account balance	(6)	} (1 for both)
Vehicle taken	(7)	(1)
Goodwill	12	}
Profit on revaluation	<u>9</u>	} (1of for both)
Amount paid	<u>148</u>	(1of)

[Total: 15]

- 4 (a) Explain what is meant by a cost centre. [2]

Example:

A cost centre is usually a department within a business to which costs can be allocated or apportioned.

Developed explanation (2 marks)

Basic explanation (1 mark)

- (b) Calculate a suitable overhead absorption rate for each cost centre. [4]

	Cost centre 1	Cost centre 2
<u>Overheads to be absorbed</u>	<u>\$100 000</u>	<u>\$180 000</u>
Basis of absorption	10 000 DLH (1)	45 000 machine hours (1)
=	\$10 per direct labour hour (1of)	\$4 per machine hour (1of)

- (c) Calculate the over absorption or under absorption of overheads for each department for the year [4]

	Cost centre 1	Cost centre 2
Actual hours × BOAR	10 100 × \$10 = \$101 000 (1of)	47 000 × \$4 = \$188 000 (1of)
Less: actual expenditure	<u>\$105 000</u> <u>\$4 000</u>	<u>\$172 000</u> <u>\$16 000</u>
	Under absorbed (1of)	Over absorbed (1of)

- (d) Prepare a quote in as much detail as possible to show the total selling price. [8]

	\$	\$
Direct material (50 kilos × \$2)		100 (1)
Direct labour –		
Cost centre 1 (12 hours × \$5)	60 (1)	
Cost centre 2 (2 hours × \$15)	<u>30 (1)</u>	90
Overheads –		
Cost centre 1 (5 hours × \$10)	50 (1of)	
Cost centre 2 (6 hours × \$4)	<u>24 (1of)</u>	<u>74</u>
Total cost		264 (1of)
Add: required profit (\$264 × 100%)		<u>264 (1of)</u>
Total selling price to quote		<u>528 (1of)</u>

(e) Recommend with reasons whether Janty should accept Simon's order. [4]

Level	Description	Marks
Level 2	Recommendation is well supported.	3–4
Level 1	Recommendation made with some support.	1–2
Level 0	No creditable response.	0

Candidates should use their answer in 4(d) to inform their recommendation.

Answers may include:

- In favour of Janty accepting the order:
 - the order should be accepted at the lower price offered by Simon because it covers the total cost and provides some profit for the business.
- Against Janty accepting the order:
 - if other customers hear about the lower price accepted they may also seek to negotiate lower prices with Janty
 - this will have a negative effect of the profitability of Janty's business
 - it may also result in fixed overheads not being recovered by the sales.

Accept any reasonable alternative.

(f) Calculate the break-even point in units for Bee. [4]

$$\begin{array}{l} \text{Fixed costs allocated} \quad \quad \quad \underline{\$22\,000} \text{ (1)} \\ \text{Contribution per unit} \quad \quad \quad (\$75\,000 - \$50\,000) \text{ (1)} \div 5000 \text{ (1)} \\ \quad \quad \quad \quad \quad \quad \quad \quad \quad = 4400 \text{ units (1)} \end{array}$$

OR

$$\begin{array}{l} \underline{22\,000} \text{ (1)} \\ 15 \text{ (1)} - 10 \text{ (1)} \\ = 4400 \text{ units (1)} \end{array}$$

(g) Recommend with reasons whether Janty should stop making product Bee. [4]

Level	Description	Marks
Level 2	Recommendation is well supported.	3–4
Level 1	Recommendation made with some support.	1–2
Level 0	No creditable response.	0

Answers may include:

- Bee has a positive contribution towards fixed overheads.
- If Bee is stopped then Cee will have to cover all the fixed costs.
- Stopping production of Bee will result in an overall loss for the business.
- The allocation of fixed costs to Bee may not be correct and needs to be investigated.
- The recommendation that Janty should not stop production of Bee.

Accept any reasonable alternative.

[Total: 30]

