ACCOUNTING	**9706/22**
Paper 2 AS Level Structured Questions	**March 2017**
MARK SCHEME	
Maximum Mark: 90	

Published

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Question	Answer	Marks
1(a)	**Cash account**	4

	$ $
	Sales 92 600 General expenses 950
	                                      Assistants' wages 2 870 **(1)**
	                                      Bank 78 780 **(1)**
	                                      Balance c/d 1 250
	                                      Drawings (balance) 8 750 **(1)**
	            92 600 92 600
	Balance b/d 1 250 **(1)**	

1(b)	Calculation of value of inventory stolen. $92600 × 60% = $55 560 cost of sales $80 690 – $640 **(1)** + $8940 **(1)** = $88 990 purchases $88 990 – $55 560 = $33 430 **(1)** theoretical closing inventory 33 430 – $31 900 (actual closing inventory) = $1530 **(1)** value of stock stolen Accept other alternative approaches.	4

Question	Answer	Marks
1(c)	Razia Income statement for the year ended 30 June 2016	8

	$	$	$
Revenue			92 600
Cost of sales			
Purchases		88 990	
Closing inventory	31 900		55 560
Stolen inventory	1 530	(33 430)	
Gross profit (must be labeled)			37 040 **(1CF)**
Less expenses			
Assistants' wages	W1	2 990 **(1)**	
Shop rental		21 600 **(1)**	
Motor expenses		3 140	
Light and heat	W2	1 170 **(1)**	
General expenses		950	
Depreciation – motor vehicles	W3	1 080 **(1)**	
Depreciation – Shop fixtures and fittings	W4	540 **(1)**	
Stolen inventory		1 530 **(1)**	33 000
Profit for the year (must be labeled)			4 040 **(1of)**

Workings

W1	Assistants' wages	$2870 + $120 = $2990 **(1)**
W2	Light and heat	$1020 + $150 = $1170 **(1)**
W3	Depreciation MV	($5800 – $400)/5 = $1080 **(1)**
W4	Depreciation Shop F & F	$3600 × 15% = $540 **(1)**

Question	Answer	Marks
1(d)	For each part, **(1) mark for formula**, **(1)of mark for correct calculation**	
1(d)(i)	$\dfrac{\text{Current assets}}{\text{Current liabilities}}$ $\dfrac{31900 + 1250 + 3600}{8940 + 4330 + 270} = 2.71:1$	**2**
1(d)(ii)	$\dfrac{\text{Current assets excluding inventory}}{\text{Current liabilities}}$ $\dfrac{1250 + 3600}{8940 + 4330 + 270} = 0.36:1$	**2**
1(e)(i)	Inventory turnover Trade payables turnover Trade receivables turnover Working capital ratio Gearing **1 mark for a valid point up to a max of 2**	**2**
1(e)(ii)	Uses historical data Only uses financial data Does not explain the cause of any changes Cannot predict Any other valid point **1 mark for a valid point up to a max of 2**	**2**

Question	Answer	Marks
1(f)	For increasing mark-up • Reduce bank overdraft • Increase (gross) profit • Improve liquidity • May enable to increase drawings Against increasing mark-up • Lose customers • May not be able to sell • Hard to decide the products this may be applied to • Competitors may enter/ need to consider competitors' price **1 mark for decision and 5 for justification**	**6**
	Total:	**30**

Question	Answer	Marks
2(a)(i)	To avoid trade receivables being overstated in the statement of financial position.	**1**
2(a)(ii)	Prudence / matching	**1**

2(a)(iii)	**Provision for doubtful debts**
	
	                                               $ $
	                                        Balance b/d 1 940
	Balance c/d 3 175 Income statement * 1 235 **(4)**
	                              3 175 3 175
	                                        Balance b/d 3 175 **(1)**
	
	(*)
	General provision: 48 500 – 2100 **(1)** – 900 **(1)** = 45 500 **OF** × 5% = $2275
	Income statement: 2275 + 900 **(1)** = 3175 – 1940 **(1)** = $1235
		5

2(b)(i)	The new provision is deducted from trade receivables under current assets in the statement of financial position **(1)**	**1**
2(b)(ii)	An increase in provision for doubtful debts is shown as an expense **(1)** A decrease in provision for doubtful debts is shown as additional income <u>after the gross profit</u> **(1)**.	**2**

2(c)	**Telephone expenses account**
	
	                              $ $
	Balance b/d 380 Balance b/d 275 **(1)***
	Bank 4 750 Income statement 4 670 **(1)OF**
	Balance c/d 560 **(1)** Balance c/d 745 **(1)**
	                  5 690 5 690
	Balance b/d 745 * Balance b/d 560 **(1)*Both**
	
	(*) Both balance b/d figures:
	Accrued: 840 × 2 / 3 **(1)** = $560
	Prepaid: 2980 × 3 / 12 = $745
		5

	Total:	**15**

Question	Answer	Marks
3(a)	Buildings (252 000 – 182 000 × 2%) $1400 **(1)**	1
3(b)		3

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	$	
Machine purchased (62 850 × 20% × 4/12)	4 190	**(1)**
Machine sold (46 350 × 20% × 8/12)	6 180	**(1)**
Other machines (74 000 – 46 350 × 20%)	5 530	**(1)**
Total depreciation charge	15 900	

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Question	Answer	Marks
3(c)		8

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King
Extract from Statement of Financial Position at 31 March 2016

	Cost		Accumulated Depreciation		Net Book Value
	$		$		$
Land and buildings	272 500	**(1)**	22 400	**(1)**	250 100
Plant and machinery	109 650	**(2)**	28 870	**(3)**	80 780
	382 150		51 270		330 880 **(1)**

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Workings:
Cost land and buildings: 252 000 + 20 500 **(1)** = 272 500
Depreciation land and buildings: 21 000 + 1400 **(1)** = 22 400
Cost plant and machinery: 123 000 + 62 850 **(1)** – 76 200 **(1)** = 109 650
Depreciation plant and machinery: 49 000 + 15 900 **(1)** – 6180 **(1)** – 29 850 **(1)** = 28 870

Question	Answer	Marks
3(d)	Wear and tear Obsolescence Changes in technology Changes in fashion tastes and trends Depletion of resources Passage of time Economic reasons **1 mark for a valid point up to a max of 3**	3
	Total:	**15**

Question	Answer	Marks
4(a)	A cost unit is a unit of production **(1)** whereas a cost centre is part of a business to which costs can be attributed / allocated to **(1)**	**2**
4(b)	Production cost centre is directly involved in producing the goods e.g machining, assembly **(1)** Service cost centre provides a service for the production cost centres / not involved in the production of goods **(1)**	**2**
4(c)	The amount each unit of production makes towards covering the fixed costs **(1)** and providing a profit. **(1)** Or The difference between sales revenue and variable costs **(1)** contributing toward making a profit (or towards the fixed costs)**(1)**	**2**

Question	Answer	Marks
4(d)	Workings	7

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	January		February	
		$		$
Sales	3600 × $12	43 200	5400 × $12	64 800
Opening inventory	–	–	900 × $5	4 500
Variable costs	4500 × $5	22 500	4500 × $5	22 500
Closing inventory	900 × $5	4 500	0 × $5	0

Marginal costing profit statement

	January		February		
	$	$	$	$	
Sales		43 200		64 800	**(1) row**
Opening inventory	–		4 500		**(1)**
Variable prod cost	22 500		22 500		**(1) row**
Closing inventory	(4 500)		(0)		**(1)**
Cost of sales		(18 000)		(27 000)	**(1 of) row**
Contribution		25 200		37 800	
Fixed costs		(9 800)		(9 800)	**(1) row**
Profit		15 400		28 000	**(1 of) row**

Total profit 43 400

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Question	Answer	Marks
4(e)	Fixed production overhead costs = $\dfrac{9000}{4500}$ = $2 per unit **(1)** Production units	1

Question	Answer	Marks
4(f)	Workings:	8

	January		February		
		$		$	
Sales	3600 × $12	43 200	5400 × $12	64 800	
Opening inventory	–	–	900 × $7	6 300	
Variable costs	4500 × $5	22 500	4500 × $5	22 500	
Fixed prod overheads	4500 × $2	9 000	4500 × $2	9 000	

Full production cost: VC $5
FPO <u>$2</u>
<u>$7</u>

Closing inventory	900 × $7	6 300	–

Absorption costing profit statement

	January		February		
	$	$	$	$	
Sales		43 200		64 800	**(1) row**
Opening inventory	–		6 300		**(1) op and cls inventory**
Variable prod cost	22 500		22 500		**(1) row**
Fixed prod cost	9 000		9 000		**(1) row**
Closing inventory	<u>(6 300)</u>		–		
Cost of sales		<u>(25 200)</u>		<u>(37 800)</u>	**(1of) row**
		18 000		27 000	
Fixed admin costs		<u>(800)</u>		<u>(800)</u>	**(1) row**
Profit		<u>17 200</u>		<u>26 200</u>	**(1of) row**

Total profit 43 400 **(1)**

Question	Answer	Marks
4(g)		3

	January ($)	February ($)
Profit per marginal costing statement (from part **(d)**)	15 400	28 000
Add difference in closing inventory	1 800	
Less difference in opening inventory		1 800
Profit per absorption costing statement (from part **(f)**)	17 200	26 200

Question	Answer	Marks
4(h)	Marginal costing will help in short term decision making. Marginal costing is easy to operate. But relies upon costs being split into fixed and variable Absorption costing helps set prices Absorption costing is used in long-run rather than short-run. Absorption costing is more acceptable / realistic for financial statements. 1 mark for decision and 4 for justification	5
30	Total:	30