

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

	\$	\$	\$	\$	
		Cost	Dep'n	NBV	
<u>Fixed Assets</u>					
Premises		520 000	114 400	405 600	
Equipment		200 000	156 800	43 200	
		<u>720 000</u>	<u>271 200</u>	448 800	1
<u>Current Assets</u>					
Stock		85 000			
Debtors	57 000				
less provision for doubtful debts	<u>1 425</u>	55 575			1
Bank		113 200			10F
Prepayment		<u>3 300</u>	257 075		
<u>Creditors due within one year</u>					
Trade Creditors		43 000			
Accrual		2 000			
Dividends due		<u>18 400</u>	<u>63 400</u>		1
Net Current Assets				193 675	1
				642 475	
<u>Creditors due after one year</u>					
5% Debentures			100 000		
Loan			<u>25 000</u>	125 000	1
				<u>517 475</u>	
Financed by					
<u>Issued Share Capital</u>					
340 000 ordinary shares of \$0.50 each				170 000	1
80 000 6% preference shares of \$1 each				<u>80 000</u>	1
				250 000	
<u>Reserves</u>					
Share premium			82 000		1
Profit and Loss			90 475		1
General reserve			<u>95 000</u>	267 475	1
				<u>517 475</u>	

(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)

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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	
	<u>20 890</u>	<u>20 890</u>	(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	<u>4 235</u>	<u>550</u>	<u>36 050</u>	
				<u>42 440</u>	
Less closing stock			<u>7 520</u>	<u>34 920</u>	
Gross profit				27 180	1of
General expenses			2 100		1
Wages			7 800		1
Depreciation			<u>550</u>	<u>10 450</u>	1
Net profit				<u>16 730</u>	(6)

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

	\$	\$	\$	
<b>INCOME</b>				
Subscriptions = 17800-550+650+100-450			17 350	5
Restaurant profit			<u>16 730</u>	1of
			<u>34 080</u>	
<b>EXPENDITURE</b>				
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	<u>2 800</u>	<u>4 100</u>	<u>34 165</u>	2
Deficit			<u>85</u>	1of
				(20)

Total marks 30

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## 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

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## A3 Workings

	\$		
Selling price	<u>800</u>	Monthly	
Direct materials	<u>100</u>	Assumed production (units)	2000
Direct labour	90	Actual production (units)	2400
Variable overheads	50	Sales (units)	1800
Fixed overheads	<u>160</u>	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	<u>384</u>	960	1 see
less closing stock		<u>240</u>	1 marks
Production cost of sales		<u>720</u>	1 below
OR (1800 x 400)			

## Marginal costing

Opening stock		Nil	
Variable production costs			
Direct materials	240		
Direct labour	216		
Variable overheads	<u>120</u>	576	1 see
less closing stock		<u>144</u>	1 marks
Variable production cost of sales		<u>432</u>	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		<u>\$320 000</u>	1 below
Over-absorbed		<u>\$64 000</u>	

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## ANSWERS

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

(18)

(b)			
	\$000		
Profit - absorption	440	Quantity produced	2400
Profit - marginal	<u>344</u>	Quantity sold	<u>1800</u>
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	<u>120</u> 1	DL	80
	<u>520</u>	Prod o/h	60
		Sales o/h	<u>80</u>
		Unit contribution	<u>\$480</u> 1

Break-even = FC/c = \$520 000/480 = 1,084 units.

2 OF

(8)

Total marks 30