
ACCOUNTING

9706/21

Paper 2 Structured Questions (Core)

October/November 2016

MARK SCHEME

Maximum Mark: 90

Published

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1 (a)

Alan, Jack and Max
Capital accounts at 1 October 2014

	\$ Alan	\$ Jack	\$ Max		\$ Alan	\$ Jack	\$ Max
Goodwill	16 000	16 000	8 000 (1)	Balance b/d	139 800	128 000	
Loan	15 000 (1)			Bank			27 000 (1)
Balance c/d	128 800	132 000	24 000	Inventory			5 000 (1)
	<u>159 800</u>	<u>148 000</u>	<u>32 000</u>	Goodwill	<u>20 000</u>	<u>20 000 (1)</u>	
					<u>159 800</u>	<u>148 000</u>	<u>32 000</u>
				Balance b/d	128 800	132 000	24 000 (1of)

Goodwill: Accept Alan 4000 Cr, Jack 4000 Cr, Max 8000 Dr (2) [6]

(b) (i) Goodwill is the excess of the valuation of a whole business over the netbook value of its net assets (1) [1]

(ii) Reputation (1) customer base/monopoly (1) location (1) quality product (1) skilled workforce (1) Max 3 [3]

(c)

Alan, Jack and Max
Current accounts

	\$ Alan	\$ Jack	\$ Max		\$ Alan	\$ Jack	\$ Max
Drawings	16 000	24 000	8 000 (1)	Balance b/d	9 500	7 500	
Interest on drawings	480	720	240 (1)	Loan interest	1 500 (1)		
Balance c/d	40 180	28 680	21 560	Interest on capital	9 660	9 900	1 800 (1) of
	<u>56 660</u>	<u>53 400</u>	<u>29 800</u>	Salary			10 000 (1)
				Share of residual profit	36 000	36 000	18 000 (1)
					<u>56 660</u>	<u>53 400</u>	<u>29 800</u>
				Balance b/d	40 180	28 680	21 560 (1of)

[7]

(d)

Share of profit (36 000 + 36 000 + 18 000)	\$ 90 000	(1)
Add:		
Interest on capital (9 660 + 9 900 + 1 800)	21 360	(1of)
Salary – Max	<u>10 000</u>	(1of)
	121 360	
Less: interest on drawings (480 + 720 + 240)	<u>(1 440)</u>	(1of)
Profit for the year	<u>119 920</u>	(1of)

[5]

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(e) (i) Answers could include:

the liquidity ratio (which excludes inventory) has fallen from 1.1 to 0.85. The partnership would be unable to pay all short-term liabilities from liquid assets (1) without selling inventory. (1)

trade receivable collection days have increased from 34 to 42 days. This may suggest that credit control is not working as well (1) or that longer terms are being allowed to maintain the level of sales. (1) Increased risk of bad debts. (1)

the partnership may find it difficult to obtain further supplies on credit (1) and may be unable to take advantage of cash discounts offered by suppliers. (1)

Max 4

[4]

(ii) the partners may need to consider introducing some additional capital (1) or Max could reduce his salary in exchange for a higher profit share. (1)

if there are any surplus non-current assets in the partnership, these could be sold. (1)
The partnership may need to negotiate a non-current loan. (1)

the partners should review their credit control policy and make any necessary improvements such as sending statements or telephoning ahead of the due date and promptly chasing overdue accounts. (1)

the partners could consider offering cash discounts for early settlement, charging interest on overdue amounts and refusing further sales unless overdue debts are cleared. (1)

to help with liquidity, if debtors are taking longer to pay then the partners could consider taking longer to pay their trade payables. (1)

Max 4

[4]

[Total: 30]

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2 (a) Sales ledger control account

	\$		\$	
Balance b/d	20 470		Irrecoverable debt written off	250 (1)
Bank	200 (1)		Discount allowed	830 (1)
			Contra	1 370 (1)
			Balance c/d	<u>18 220</u>
	<u>20 670</u>			<u>20 670</u>
Balance b/d	18 220 (1of)			
				[5]

(b)

	\$	
Original sales ledger balances extracted	18 740	
1 Sales invoice	960 (1)	
2 Irrecoverable debt written off	(250) (1)	
3 Bank	(760) (1)	
Bank	(670) (1)	
4 Unpaid cheque	<u>200 (1)</u>	
Amended sales ledger balances	<u>18 220</u>	
		[5]

(c) Accuracy / errors (1)

Prevention of fraud (1)

Total for trade receivables / final accounts (1) [3]

(d) Error of omission (1)

Error of commission (1)

Compensating error (1)

Error of original entry (1)

Max 2

[2]

[Total: 15]

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3 (a)

	Ordinary shares \$	Share premium \$	Revaluation reserve \$	Retained earnings \$	Total	
Opening balance	300 000	20 000		635 210	955 210	(1)(for row)
Revaluation			250 000 (1)		250 000	
Issue of shares	30 000 (1)	(20 000)(1of)	(10 000) (1of)		–	
Profit for the year				230 809	230 809	
Dividends				(26 400) (1)	(26 400)	
Total	<u>330 000</u>	<u>0</u>	<u>240 000</u>	<u>839 619</u>	<u>1 409 619</u>	(1of)

[7]

- (b) The revaluation reserve is a capital reserve. (1) Capital reserves are not allowed to be used for the payment of a cash dividend. (1) The creation of a revaluation reserve is not a cash transaction as no cash has been generated for the payment of dividends. (1)
The capital reserve will increase the asset value (1) of the company and the shareholders interest and is in the accounts to reflect a true and fair view of the company accounts.(1)
Cash gain can only be realised if the asset is sold. (1)

Max 4

[4]

- (c) Issue bonus shares (1)

Write off formation/preliminary expenses (1)

[2]

- (d) A bonus issue of shares is a capitalisation of reserves (1)

Free issue of shares/ no cash (1)

A rights issue is to existing shareholders (1)

A rights issue generates cash for the business (1)

Max 1 bonus, max 1 rights

[2]

[Total: 15]

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4 (a) Variable costs

		\$	
Materials	$220 \times \$22$	4 840	
Production labour bonus	$220 \times \$0.50$	110	
Finishing labour bonus	$220 \times \$0.25$	<u>55</u>	
Weekly variable costs	<u>22.75 (1) OR</u>	<u>5 005</u>	(1)

Fixed costs: $345 + 280 + 150 + 500 + 260 = \1535 (1)

Contribution = $(220 \times \$30)$ (1) – 5005 (1of) = \$1595

OR

30 (1) – 22.75 (1of) = \$7.25 per bookcase

Breakeven point = $\$1535 / \$7.25 = 212$ bookcases (1of) [5]

(b) Margin of safety: $220 - 212 = 8$ bookcases (1of) $\times \$30 = \240 revenue (1of) [2]

(c)

	\$	
Sales revenue ($\$30 \times 220 \times 52$)	343 200	(1)
Variable costs ($\$5005 \times 52$)	<u>260 260</u>	
Contribution ($\$1595 \times 52$)	82 940	(1of)
Fixed costs ($\$1535 \times 52$)	<u>79 820</u>	(1of)
Profit	<u>3 120</u>	(1of)

[4]

(d) Variable costs

	\$	
Material ($(\$22 + \$2.25)$)	24.25	(1)
Production labour bonus*	0.50	}* (1) for both
Finishing labour bonus*	<u>0.25</u>	
Total variable costs	<u>25.00</u>	(1)

Selling price: $25 \times (100 / 80) = \$31.25$ (1of) [4]

(e)

		\$	\$
Sales revenue	$220 \times \$30 \times 52$	343 200	
	$100 \times \$29 \times 52$	<u>150 800</u>	494 000 (1of)
Variable costs	$\$5005 \times 52$	260 260	
	$\$2500 \times 52$	<u>130 000</u>	<u>390 260</u> (1of)
Contribution			103 740 (1of)
Fixed costs	$(79 820 + (140 \times 52))$	<u>87 100</u>	(1of)
Profit			<u>16 640</u> (1of)

[5]

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(f) Reasons for proceeding:

- Additional \$13 520 profit
- Utilisation of spare capacity
- Less reliant on only one customer
- Only small increase in fixed costs
- Positive contribution

Reason for not proceeding

- Dando plc may cause problems due to lower price being offered to retailer
- Competitors may lower price and start price war

All answers based on previous own figures

Reasons for proceeding max 2

Reasons for not proceeding max 1

Advice 1

[4]

(g) Advantages (**max 4, 1 + 1 for development**)

- Averaging smooths out fluctuations in costs making comparison between periods more valid
- Averaged prices used to value closing inventory likely to be closer to latest prices
- Avoids identical items being charged to a job at different prices

Disadvantages (**max 2, 1 + 1 for development**)

- Average price has to be re-calculated after each purchase – time consuming
- Average price does not represent any price actually paid

[6]

[Total: 30]