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INTERNATIONAL EXAMINATIONS

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GCE Advanced Subsidiary Level

MARK SCHEME FOR the November 2001 question papers

8706 ACCOUNTING

8706/1	Paper 1 (Multiple Choice), maximum raw mark 30
8706/2	Paper 2 (Structured questions), maximum raw mark 90

These mark schemes are published as an aid to teachers and students, to indicate the requirements of the examination. They show the basis on which Examiners were initially instructed to award marks. They do 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*.

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INTERNATIONAL EXAMINATIONS

NOVEMBER 2001

ADVANCED SUBSIDIARY LEVEL

MARK SCHEME

MAXIMUM MARK : 30

SYLLABUS/COMPONENT : 8706/1

ACCOUNTING
(MULTIPLE CHOICE)

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Page 1 of 1	Mark Scheme	Syllabus	Paper
	AS Level Examinations – November 2001	8706	1

Item	Correct Answer	Item	Correct Answer
1	D	16	D
2	C	17	B
3	C	18	D
4	B	19	B
5	A	20	A
6	B	21	A
7	C	22	A
8	A	23	D
9	A	24	B
10	B	25	D
11	C	26	B
12	B	27	D
13	D	28	D
14	A	29	A
15	C	30	C

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CAMBRIDGE
INTERNATIONAL EXAMINATIONS

NOVEMBER 2001

ADVANCED SUBSIDIARY LEVEL

MARK SCHEME

MAXIMUM MARK : 90

SYLLABUS/COMPONENT : 8706/2

ACCOUNTING
(STRUCTURED QUESTIONS)

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Note: 'OF' – This means the 'own figure' rule applies. A candidate may not be penalised twice for the same error. The candidate is, of course, penalised where the error is made, but any later answers which are wrong purely in consequence of that error are eligible for full marks if the calculation is based on the candidate's own earlier wrong figure.

'CF' = correct figure. Only the correct figure as given in the mark scheme is acceptable.

1 (a) Minimise possibility of fraud
Make fraud easier to find
Minimise time taken to find errors
Make errors easier to find; only need check section which is wrong
Figures for total debtors and creditors easily available
Security - control accounts not handled by sales/purchases ledger clerk
etc Maximum 2 marks per point to maximum **(6)**
(1 for statement, 1 for development)

(b) Purchases Ledger Control account

	Dr $	Cr $	Balance $	
Balance at 1/5/2000		43,120	43,120	1
Credit purchases for year		824,140	867,260	1
Credit purchases returns	12,400		854,860	1
Payment to creditors	745,980		108,880	1
Discount received	31,400		77,480	1
Cr bals to sales ledger a/cs	5,210		72,270	1+1
				(7)

(c) (i) Amended Purchases Ledger Control account

		Dr $	Cr $	Balance $	
Balance at 1/5/2000			43,120	43,120	
Credit purchases for year	(+2040)		826,180	869,300	1
Credit purchases returns		12,400		856,900	
Payment to creditors	(+1450)	747,430		109,470	1
Discount received	(-1000)	30,400		79,070	1
Cr bals to S L accounts	(+850)	6,060		73,010	1+1
					(5)

(c) (ii) Proof

Purchases ledger total		67,660	1
add	Balance omitted	3,210	1
	Invoice omitted	2,040	1
	Balance understated	100	1
		73,010	1
			(5)

(d) Prudence - a loss should be provided for as soon as it is anticipated
but profit should not be assumed until it is actually made **(2)**

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(e) (i) Goodwill - accept reference to
difficulty in determining what it is
difficulty in quantifying it
can't determine future value
only recognised on sale of a business
purchased Goodwill shown in accounts
non-purchased Goodwill not shown in accounts
any relevant three points to a maximum **(3)**

(e) (ii) Stock-in-trade - accept reference to
valuation usually at lower of cost or realisable value
replacement cost ignored
future sales values ignored unless below cost
any relevant three points to maximum **(3)**

2 (a)

Accumulated fund at start	$		
Fees due	600		
Stock	500		
Bank	8400		
Cash float	50		
Deposit a/c	15000	24550	1
Creditors	1450		
prepaid subs	480	1930	1
		22620	1 OF

(3)

(b) Shop Trading account

	$	$	$	
Sales			7168	1
Add difference in float			20	
			7188	
Opening Stock		500		1
Purchases	3745			
less opening creditors	1450			1
	2295			
add closing creditors	1260	3555		1
		4055		
less closing stock		850		1
		3205		
Wages		4000	7205	1
Loss on shop			-17	

(6)

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(c)

Subscriptions account

Balance	b/d	1	600	Balance	b/d	480	1
I & E account		1	6000	Bank		6435	1
Balance	c/d	1 OF	315				
			6915			6915	
				Balance	b/d	315	

(5)

(d)

Income & Expenditure Account		$	
INCOME			
Subscriptions		6000	1
Cash at door		3500	1
Grant		10000	2
Donations		600	1
Interest on deposit a/c		800	1
		20900	
EXPENDITURE			
Loss on dance	90		2
Loss on shop	17		1 OF
General expenses	1565		2
Depreciation	400		2
Rent	8000	10072	1
SURPLUS		10828	1+1 OF

(16)

3 (a) Fixed costs are assumed to remain fixed regardless of circumstances
BUT As factory expands, rent may increase. Etc
Variable costs are assumed to be in direct proportion to volume of production
BUT Overtime means higher labour rates. Etc
Selling price is assumed to remain constant
BUT New competition may mean price has to be lowered
It is assumed that all production will be sold
BUT Few businesses have no opening or closing stock
It is assumed that sales mix will remain unchanged
BUT Mix may change, and even though unit sales targets are reached, profits will depend on predominance of high or low margins on goods sold
Costs are assumed to remain constant
BUT Strikes, inflation, competition may change them
Costs mix is assumed to remain constant
BUT As business moves from Labour to Capital intensive, this ratio may change.
All reasonable/reasoned answers acceptable to max 10 marks (1 per assumption, 1 per limitation) **(10)**

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(b) (i)	Sales - 7500 @ $10		75000		
	Direct Materials - 7500 @ $5.30	39750			
	Direct Labour - 7500 @ $2	15000			
	Var. Overheads - 7500 @ $0.9	6750	61500		
	CONTRIBUTION		13500		1 OF
	Fixed Costs - 10000 @ $0.75		7500		1
	Net Profit		6000		1
			====		(3)
(b) (ii)	Sales - $9000 @ $10		90000		
	Direct Material - 9000 @ $5.30	47700			
	Direct Labour - 9000 @ $2	18000			
	Var Overheads - 8000 @ $0.9	7200			1
	- 1000 @ $0.85	850	73750		1
	CONTRIBUTION		16250		1 OF
	Fixed Costs		7500		
	Net Profit		8750		1
			====		(4)
(c)	Break-even = FC/c = 7500/1.8			4166.6667 units	3
	Should be whole number, so =			4167 units	1
					(4)
(d)	Sales - 10000 @ $9		90000		
	Direct Material - 10000 @ $5.30	53000			
	Direct Labour - 10000 @ $2	20000			
	Var O'heads - 8000 @ $0.9	7200			1
	- 2000 @ $.85	1700	81900		1
	CONTRIBUTION		8100		1
	Fixed Costs		7500		
	Net Profit		600		1
			===		(4)
(e)	Lower price means beating competitors' prices so selling more				
	Also means fuller employment for workers				
	But if lowered too much affects profits				
	Unless other savings can be effected				
	Which might mean lowering wages				
	Etc			Up to 4 points, maximum	(4)

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