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CAMBRIDGE INTERNATIONAL EXAMINATIONS

Cambridge International Advanced Subsidiary and Advanced Level

MARK SCHEME for the October/November 2015 series

9706 ACCOUNTING

9706/21 Paper 2 (Structured Questions – Core), maximum raw mark 90

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1 (a) The City Cricket Club Refreshments Trading Account for the year ended 30 September 2015

	$	$	
Sales of refreshments		4430	
Less cost of sales			
Opening inventory	770		
Purchases (2697 + 840 **(1)** – 960 **(1)**)	2577		
	3347		
Less closing inventory	590	2757	
Gross profit		1673 **(1)OF**	**[3]**

(b)

The City Cricket Club

Income and Expenditure Account for the year ended 30 September 2015

	$	$	
Profit from sales of refreshments		1 673	
Subscriptions (670 **(1)** + 320 **(1)** + 6650 –240 **(1)** – 540 **(1)** – 400 **(1)**		6 460	
Life membership transfer		320 **(1)**	
Advertising revenue		2 600	
Donations		770	
		11 823	
Less expenses			
Groundsman's wages	3 500		
Travelling expenses	942		
Rent	4 500		
Depreciation (W1)	2 000		
Loss on disposal	250 **(1)**		
Interest on loan	250 **(1)**		
Bad debts	50 **(1)**	11 492	
Surplus for the year		331 **(1)OF**	

[12]

W1 1140 + 500 **(1)** + 360 **(1)**

OR

1070 + 570 **(1)** +360 **(1)**

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(c)

Statement of Financial Position at 30 September 2015

Non-current assets	Cost	Accumulated depreciation	NBV
	$	$	$
Equipment (W1)	9 300	3 550 **(2)OF**	5 750
Current assets			
Inventory	590		
Subscriptions in arrears	270 **(1)**		
Bank	6 315 **(1)**	7 175	
Current liabilities			
Subscriptions in advance	540		
Interest due	250 **(1)**		
Trade payable for refreshments	840	1 630	5 545
			11 295
Accumulated fund (12 514 – 9430)		3 084 **(1)**	
Add surplus		331 **(1)OF**	
		3 415	
Life membership fund (W2)		2 880 **(1)OF**	
Non-current liabilities – 5% loan (2017)		5 000 **(1)**	
		11 295	

[9]

WORKINGS

W1 Statement of financial position
Accumulated Depreciation
= 4800 – sold 3250 = 1550 **(1)** + 2000**(1)OF** = 3550
Non-current assets and Depreciation 10 700 – 5000 = 5700 + 3600
= 9300 non-current assets
Sale of equipment 5000 – 3500 (5000 × 20% × 3.25yrs)
= 1750 (Process 1500, Loss 250)

W2 Life membership 2800 + 400 = 3200 – trf 10% = 320 =2880

(d) The fund contains large sums paid by members for a life subscription to the club **(1)**. The full amount cannot be charged in one year to the Income and Expenditure account **(1)** as this will inflate the income **(1)** for that year and it cannot be compared satisfactorily to other year's **(1)** Accordance with the matching concept **(1)**.

1 mark per point (Max 3) **[3]**

(e) The cashbook does not include non-cash items e.g. depreciation **(1)** The bank also includes items which are not in the income and expenditure account such as the sale of assets increase the amount of cash there **(1)** The Income and expenditure deals only with the current year but the bank account includes cash brought forward from the previous period **(1)**

1 mark per point **[3]**

[Total: 30]

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2 (a) Profit and loss appropriation account for the year ended 31 May 2015

	$	$
Profit for the year		90 000
Add interest on drawings		
Alex	200 **(1)**	
Barry	480 **(1)**	
		680
		90 680
Less interest on capital		
Alex	4 500 **(1)**	
Barry	3 000 **(1)**	
		7 500
		83 180
Less Salary		6 000 **(1)**
Barry		
		77 180
Share of profit		
Alex	57 885 **(1)OF**	
Barry	19 295 **(1)OF**	
		77 180

[7]

(b)

Current accounts

	Alex $	Barry $		Alex $	Barry $
Balance b/d		12 500	Balance b/d	14 000	**(1)**
Int on drawings	200	480 **(1)OF**	Int on loan	1 500	1 600 **(1)**
Drawings	5 000	12 000 **(1)**			
Balance c/d	72 685	4 915 **(1)OF**	Int on capital	4 500	3 000 **(1)OF**
			Salary		6 000 **(1)**
			Share profit	57 885	19 295 **(1)OF**
	77 885	29 895		77 885	29 895
			Balance b/d	72 685	4 915

[8]

(c) Sharing losses. **(1)**
Introduction of capital. **(1)**
Bringing more expertise to the business. **(1)**
Reducing the workload of the partners. **(1)** **[Max. 2]** **[2]**

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(d)

Capital accounts

	Alex	Barry	Cesar			Alex	Barry	Cesar	
	$	$	$			$	$	$	
Goodwill	30 000	20 000	10 000	**(3)**	Balance	90 000	60 000		**(1)**
					Bank			100 000	**(1)**
Balance c/d	105 000	55 000	90 000	**(1)OF**	Goodwill	45 000	15 000	**(2)**	
	135 000	75 000	100 000			135 000	75 000	100 000	
					Balance b/d	105 000	55 000	90 000	

[8]

(e)

Statement of corrected net profit

					$
Original Net Profit		+	–		90 000
		$	$		
1	Sales day book	20 000		**(1)**	110 000
2	Inventory		2 000	**(1)**	108 000
3	Repairs		7 000	**(1)**	101 000
4	Purchase invoice		3 600	**(1)**	97 400 **(1)OF**

[5]

[Total: 30]

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3 (a) Overhead Analysis Sheet

Overheads	Basis of Apportionment	Machining	Assembling	Maintenance	Totals	
		$	$	$	$	
Rent	floor area	5 600	4 000	3 200	12 800	**(1)**
Machinery depreciation	value of machinery	5 200	4 800		10 000	**(1)**
Power	kilowatt hours	3 600	2 700	900	7 200	**(1)**
Supervision of employees	number of employees	2 560	1 920	1 920	6 400	**(1)**
Indirect materials	allocated	300	268	320	888	**(1)**
Indirect labour	allocated	2 720	1 480	860	5 060	**(1)**
		19 980	15 168	7 200	42 348	
re-apportionment of maintenance department overheads		3744 **(1)**	3456 **(1)**	(7 200) **(1)**		
		23 724	18 624	**(1)OF**	42 348	

[10]

(b) (i) Machining – Overhead absorption rate

(1) (OF) (1) (with narrative)

$$\frac{\text{Machine dept overhead}}{\text{Machine hours}} = \frac{\$23\,724}{14\,000} = \$1.69 \text{ per machine hour}$$

(1)

(ii) Assembling – Overhead absorption rate

(1) (OF)(1) (with narrative)

$$\frac{\text{Assembling dept overhead}}{\text{Direct labour hours}} = \frac{\$18\,624}{6\,000} = \$3.10 \text{ per direct labour hour}$$

(1)

[6]

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(c) (i) Cost statement – Job 68

	$	
Direct materials	3 600	
Direct labour	1 900	
PRIME COST	5 500	**(1)**
Total overhead	*355	**(4) (OF)**
TOTAL COST	5 855	

Overhead calculation	$
Machining – 100 hours × $1.69 =	169
Assembling – 60 hours × $3.10 =	186
	$355

*[Needs the correct hours for 1 mark and the absorption rate from part (b) for 1 mark] × 2. **[5]**

(ii) **(1) (OF) (1)** **(1) (OF)**

$$SP = \text{TOTAL COST} \times \frac{100}{80} = \$5855 \times \frac{100}{80} = (\$7318.75) = \$7319$$

[3]

(d) (i) Overhead over absorption

Machining department over absorbed. **(1)**

Over absorption of overheads means that the absorbed overheads were more than the actual overhead expenditure incurred. **(1)**

In the machining department indirect wages of $2720 were absorbed into production. This was $700 more than the actual overhead. Over-absorption of overhead occurred. **(1)**

A credit for $700 should be made to the income statement. **(1)**
(Max 3)

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(ii) Overhead under absorption

Assembling department under-absorbed. **(1)**

Under-absorption of overheads means that the amount of overheads absorbed into production was less than the amount of actual overheads incurred. **(1)**

In the assembly department the number of direct labour hours worked was less than estimated.

Absorption rate from **(b) (ii)** was $3.10 per direct labour hour.

Total overhead to be absorbed was $18 624.

Using the actual labour hours worked the overhead absorbed would be

5570 × $3.10 = $17 267 **(1)**

Conclusion – overhead under- absorbed of $1357 – This would be debited to the income statement. **(1)**
(Max 3)

NOTE

One mark for identifying the correct department
One mark for an explanation of over or under absorption
One mark for some illustration relating to the figures
One mark for the entry required in the income statement.
(Max 3 in each part) **[6]**

[Total: 30]

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