UNIVERSITY OF CAMBRIDGE INTERNATIONAL EXAMINATIONS

GCE Advanced/Advanced Subsidiary Level

MARK SCHEME for the November 2004 question paper

9706 ACCOUNTING

9706/02   Paper 2 (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*.

- CIE will not enter into discussion or correspondence in connection with these mark schemes.

CIE is publishing the mark schemes for the November 2004 question papers for most IGCSE and GCE Advanced Level syllabuses.

Grade thresholds taken for Syllabus 9706 (Accounting) in the November 2004 examinat

	maximum mark available	minimum mark required for grade:		
		A	B	E
Component 2	90	61	52	32

The thresholds (minimum marks) for Grades C and D are normally set by dividing the mark range between the B and the E thresholds into three. For example, if the difference between the B and the E threshold is 24 marks, the C threshold is set 8 marks below the B threshold and the D threshold is set another 8 marks down. If dividing the interval by three results in a fraction of a mark, then the threshold is normally rounded down.

NOVEMBER 2004

GCE A/AS LEVEL

MARK SCHEME

MAXIMUM MARK: 90

SYLLABUS/COMPONENT: 9706/02

ACCOUNTING
Paper 2 (Structured Questions)

1 **(a)** Bank account

	Dr	Cr	Balance		
	$	$	$		
Capital	17 600		17 600	Dr	**1**
Purchases etc (30320+2000+800)		33 120	15 520	Cr	**1**
Motor Car		5 750	21 270		**1**
Motor expenses		515	21 785		**1**
Float		100	21 885		**1**
Sales (difference)	24 005		2 120	Dr	**1** + 1 of

(7)

(b)

Total sales	$		
Cash paid in for sales	24 005	**1**	of
add rent	720	**1**	
add drawings	5 200	**1**	
Total sales	29 925	**1**	of

(4)

(c) Closing stock

Raw materials purchased = 33 120 – 2 000 - 800 =	$30 320	**3**	
Cost of sales = $29\,925 \times \dfrac{100}{175}$ =	$17 100	**1**	+ 1 of
Closing stock = 30 320 - 17 100	$13 220	**1**	of

(6)

(d) Trading and Profit and Loss account for the year ended 31 March 2004

		$	$		
Sales			29 925	**1**	of
less cost of sales					
Purchases		30 320			
less closing stock		13 220	17 100	**1**	of
Gross profit			12 825		
less expenses					
Rent		720		**1**	
Petrol		800		**1**	
Motor expenses		515		**1**	
Depreciation	Motor car	1 150			**1**
	Display cabinets	400	1 550	3 585	**1**
Net profit			9 240	**1**	of

(8)

Side-by-side layout for accounts is equally acceptable.

(e) (i) If the company goes out of business the shareholders cannot be held personally liable for the company debts.

(ii) The death or retiral of a director of a limited company need not affect the business.

However,

(iii) Annual accounts must be professionally audited.

(iv) Companies must file annual return and accounts with the Registrar of Companies.

(v) There is much more "red tape" than with sole traders or partnerships.

(vi) Each shareholder must be sent a copy of the company's annual audited accounts.

Any other relevant answers.   Any 5 points.   **(5)**

                                                                                    Total [30]

2 (a)
<div align="center">

Sales Ledger Control Account
</div>

	$			$	
Balance b/f	5 627	**1**	Sales returns	1 997	**1**
Sales for year	100 384	**1**	Bank (from debtors)	92 760	**1**
Dishonoured cheque	109	**1**	Discount allowed	4 082	**1**
			Bad Debts written off	1 884	**1**
			Contra entry	208	**1**
			Balance c/d	5 189	**1**
	106 120			106 120	
Balance b/f	5 189	**1**	**OF**		**(10)**

(b)(i)
<div align="center">

Amended Sales Ledger Control Account
</div>

	$			$	
					1
Balance b/f	5 189	**1**	Debit balance Contra	412	**1**
					1
Sales invoice omitted	2 001	**1**	Credit note correction	440	**1**
Additional Sales	7 820	**1**			
Discount allowed over/s	620	**1**	Balance c/d	12 778	**1**
	15 630			15 630	
Balance b/d	12 778	**1**	**OF**		**(8)**

<div align="center">

Alternative Amended Sales Ledger Control Account
</div>

	$	$		$	$	
Balance b/f		5 627	**1**	Sales Returns		1 997	
Sales	100 384			Dis all'd	4 082		
	2 001		**1**	less	620	3 462	**1**
	7 820		**1**	Bank		92 760	
less	1 440	108 765	**1**	Bad Debts w/o		1 884	
Dishon cheque		109		Contras	208		
					1 412	1 620	**1**
				Balance c/d		12 778	**1**
		114 501				114 501	
Balance b/d		12 778	**1**	**OF**			**(8)**

(b)(ii)   Statement agreeing balances

		$	$	
				1
Sales ledger total			9 387	
Add	Balance omitted	4 020		**1**
	Balance understated	220		**1**
	Entry omitted	1 620		**1**
	Invoice omitted	2 001	7 861	**1**
			17 248	
Less	Receipt not posted	1 210		**1**
	Credit note correction	1 440		**1**
	Bankruptcy	1 820	4 470	**1**
			12 778	**1** **(9)**

Any correct answers/layouts acceptable

(c)   Minimises possibility of fraud
        Makes fraud easier to find
        Minimises possibility of errors
        Makes errors easier to find
        Checking easier as sectional ledgers created
        Control accounts not handled by clerks who make original entries
        Total debtors and creditors figures readily available

                                                        Maximum (3)
                                                         Total [30]

3 **(a)**

	Option 2		Option 3	
$\dfrac{\text{Fixed Costs}}{\text{Unit contribution}}$	$\dfrac{30M}{370-150}$	136 364 Units	$\dfrac{50M}{420-100}$	156 250 units

if units not rounded $50 454 545
if units rounded $50 454 680 $65 625 000
1 for using correct formula, 1 for each answer
Accept approximate answers for value if formula used is FC/CS ratio

(5)

(b)

Units		Option 1 $000	Option 2 $000	Option 3 $000
(i)	190 000	22 800	11 800	10 800
(ii)	240 000	28 800	22 800	26 800
(iii)	290 000	34 800	33 800	42 800

(9)

(c) $\dfrac{\underline{\text{Difference in Fixed Costs}}}{\text{Difference in Contribution}}$ $\dfrac{\$50M-\$30M}{320-220}$ 200 000 units

OR

220x - 30 000 000 = 320x - 50 000 000
i.e. 100x = 20 000 000
i.e. x = 200 000 units

(3)

(d) $\dfrac{\underline{\text{Fixed Costs}}}{\text{Contribution - Profit on buying in}}$ $\dfrac{\underline{50\,000\,000}}{320-120}$ 250 000 units

OR 400x - 280x = 420x - 100x - 50 000 000
400x - 280x = 420x - 100x - 50 000 000
i.e. 200x = 50 000 000
i.e. x = 250 000 units

(3)

(e)   Option 1 - buying in - is best from 200 000 up to 250 000 units.
Option 2 - do not use.
Option 3 is best from 250 000 upwards.
Any other relevant answers.

                                                      2 each   **(6)**

(f)

Assumption	Limitation
FC remains fixed	Rent etc may increase
VC always in same proportion to sales	Economies of scale may occur
SP is constant	Competition may force lower prices
Sales mix does not change	Demand forces changes
B/E based on one product	Few produce only one product
Cost mix constant	Labour intensive becomes capital intensive
Costs either fixed or variable	Some are semi-variable
Technology/efficiency does not change	Firms constantly aim to improve
No outside influences	We live in a real world
etc	

Limitations must follow on from assumptions   Any two pairs for   **(4)**

Total [30]