
ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 2017

MARK SCHEME

Maximum Mark: 90

Published

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This document consists of **10** printed pages.

Question	Answer	Marks
1(a)	\$ Inventory at 6 April 2016 57 760 Purchases (6 100) (1) Sales (9600 × 4/5) 7 680 (1) Sale or return (2100 × 4/5) 1 680 (1) Customer returns (650 × 4/5) (520) (1) Inventory at 31 March 2016 (10F)	5

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1(b)	Huan Income statement for the year ended 31 March 2016 <table><thead><tr><th></th><th>\$</th><th>\$</th><th></th></tr></thead><tbody><tr><td>Revenue</td><td></td><td>294 200</td><td></td></tr><tr><td>Cost of sales</td><td></td><td></td><td></td></tr><tr><td>Opening inventory</td><td>56 800</td><td></td><td></td></tr><tr><td>Purchases</td><td>239 470</td><td></td><td></td></tr><tr><td>Returns outwards</td><td>(410)</td><td></td><td>(1)</td></tr><tr><td></td><td> 295 860 </td><td></td><td></td></tr><tr><td>Closing inventory</td><td>(60 500)</td><td>235 360</td><td>(1OF)</td></tr><tr><td>Gross profit</td><td></td><td>58 840</td><td>(1OF)</td></tr><tr><td>Profit on disposal of motor vehicle (W1)</td><td></td><td>470</td><td>(2CF/1OF)</td></tr><tr><td></td><td></td><td> 59 310 </td><td></td></tr><tr><td>Deduct expenses</td><td></td><td></td><td></td></tr><tr><td>Carriage outwards</td><td>810</td><td></td><td></td></tr><tr><td>Discount allowed</td><td>1 250</td><td></td><td></td></tr><tr><td>Insurance</td><td>1 090</td><td></td><td></td></tr><tr><td>Motor expenses</td><td>6 460</td><td></td><td></td></tr><tr><td>Other operating expenses</td><td>4 690</td><td></td><td></td></tr><tr><td>Wages</td><td>12 230</td><td></td><td></td></tr><tr><td>Advertising expenses (3480 – 200)</td><td>3 280</td><td></td><td>(1)</td></tr><tr><td>Interest payable (950 + 180)</td><td>1 130</td><td></td><td>(1)</td></tr><tr><td>Property rental (11 050 – 3250)</td><td>7 800</td><td></td><td>(1)</td></tr><tr><td>Depreciation motor vehicles (49 600 × 25%)</td><td>12 400</td><td></td><td>(1)</td></tr><tr><td>Depreciation fixtures and fittings 41 600 × 15%)</td><td>6 240</td><td></td><td>(1)</td></tr><tr><td>Irrecoverable debt written off</td><td>420</td><td></td><td>(1)</td></tr><tr><td>Increase in provision for doubtful debts (W2)</td><td>110</td><td>57 910</td><td></td></tr><tr><td>Profit for the year</td><td></td><td> 1 400 </td><td>(1OF)</td></tr></tbody></table> W1 Accumulated depreciation = (18 720 × 25%) + 4680 × $\frac{9}{12}$ NBV = 10 530 Profit = 11 000 – 10 530 = 470 W2 (34 920 – 420) × 2% – 580 = 110 increase		\$	\$		Revenue		294 200		Cost of sales				Opening inventory	56 800			Purchases	239 470			Returns outwards	(410)		(1)		295 860			Closing inventory	(60 500)	235 360	(1OF)	Gross profit		58 840	(1OF)	Profit on disposal of motor vehicle (W1)		470	(2CF/1OF)			59 310		Deduct expenses				Carriage outwards	810			Discount allowed	1 250			Insurance	1 090			Motor expenses	6 460			Other operating expenses	4 690			Wages	12 230			Advertising expenses (3480 – 200)	3 280		(1)	Interest payable (950 + 180)	1 130		(1)	Property rental (11 050 – 3250)	7 800		(1)	Depreciation motor vehicles (49 600 × 25%)	12 400		(1)	Depreciation fixtures and fittings 41 600 × 15%)	6 240		(1)	Irrecoverable debt written off	420		(1)	Increase in provision for doubtful debts (W2)	110	57 910		Profit for the year		1 400	(1OF)	13
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1(c)	Benefits: (maximum 3 marks) Provides a total for trade receivables. (1) Helps in the preparation of the financial statements. (1) Helps deter/prevent/reduce fraud as it is maintained by different person. (1) Verifies the arithmetical accuracy / identifies errors in the sales ledger. (1) Can be reconciled with the sales ledger balances to improve accuracy. (1) Limitation: (maximum 1 mark) Doesn't identify errors of commission/omission/compensating/original entry. (1)	4
1(d)(i)	operating expenses to revenue (to <u>two</u> decimal places) $(57\,910 - 11\,130) / 294\,200 \times 100 = 19.30\%$ (1 OF)	4
1(d)(ii)	inventory turnover (days) $(56\,800 + 60\,500) / 2 \times 365 / 235\,360 = 91$ days (1 OF)	
1(e)(i)	Carla may have better control on operating expenses. Carla may have lower wages as she does the work herself, so takes higher drawings. Carla may have less depreciation as she does not need delivery vehicles. Allow other valid responses. Maximum 2 marks (1 for stating and 1 for developing)	4
1(e)(ii)	Carla has a faster turnover of finished goods because all her products are sold on the day they are made. Any inventory (e.g. flour) is perishable. Maximum 2 marks (1 for stating and 1 for developing)	

Question	Answer				Marks																
2(a)	<table><tr><td>accounts to be debited</td><td></td><td>accounts to be credited</td><td></td></tr><tr><td>Asset disposal (1)</td><td></td><td>Asset at cost (1)</td><td></td></tr><tr><td>Asset provision for depreciation (1)</td><td></td><td>Asset disposal (1)</td><td></td></tr><tr><td>Bank or cash (1)</td><td></td><td>Asset disposal (1)</td><td></td></tr></table>				accounts to be debited		accounts to be credited		Asset disposal (1)		Asset at cost (1)		Asset provision for depreciation (1)		Asset disposal (1)		Bank or cash (1)		Asset disposal (1)		6
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2(b)	Provision for depreciation				7																

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2(c)	Transaction 1: Profit would decrease by \$2823 (1) due to the depreciation cost. Transaction 2: Profit would increase by \$1509 (1) due to the profit on disposal of the asset. Alternative: The overall effect on profit for the year would be a decrease of \$1314 (2).	2

Question	Answer	Marks
3(a)(i)	Ordinary shareholders have voting rights at general meetings, whereas cumulative preference shareholders do not. (1) The cumulative preference dividend is a fixed amount, whereas the ordinary dividend is set annually and can vary depending on profits. (1) Unpaid ordinary dividends do not accumulate, whereas cumulative preference dividends Do. (1) If the company is liquidated, cumulative preference shareholders would be paid ahead of ordinary shareholders. (1) Max 2	2
3(a)(ii)	Subscribers pay for shares in a rights issue, but not with a bonus issue. (1) The company's net assets are increased as a result of a rights issue, but unchanged with a bonus issue. (1) Shareholders may or may not exercise their rights, but will automatically receive their bonus shares. (1)	3

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3(b)	<table><thead><tr><th>Date</th><th>Name of account to be debited</th><th>Amount \$</th><th>Name of account to be credited</th><th>Amount \$</th><th></th></tr></thead><tbody><tr><td>2015</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>June 1</td><td>Bank</td><td>100 000</td><td>Ordinary share capital</td><td>100 000</td><td>(1)</td></tr><tr><td></td><td>Bank</td><td>15 000</td><td>Share premium</td><td>15 000</td><td>(1)</td></tr><tr><td>Sept 30</td><td>Bank</td><td>30 000</td><td>Share premium</td><td>30 000</td><td>(1)</td></tr><tr><td>2016</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td>Oct 1</td><td>Bank</td><td>25 000</td><td>Ordinary share capital</td><td>25 000</td><td>(1)</td></tr><tr><td>Oct 1</td><td>Bank</td><td>4 750</td><td>Share premium</td><td>4 750</td><td>(2)</td></tr></tbody></table> *25 000 × (\$1.40 × 85% = \$1.19) – 25 000 = 4750						Date	Name of account to be debited	Amount \$	Name of account to be credited	Amount \$		2015						June 1	Bank	100 000	Ordinary share capital	100 000	(1)		Bank	15 000	Share premium	15 000	(1)	Sept 30	Bank	30 000	Share premium	30 000	(1)	2016						Oct 1	Bank	25 000	Ordinary share capital	25 000	(1)	Oct 1	Bank	4 750	Share premium	4 750	(2)	6
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3(c)	Shareholders demand would result in a payment of \$60 000 (1) Retained earnings are only \$45 000 (1) Maximum dividend payable equals 45 000 / 125 000 = \$0.36 (1) There is sufficient cash in the bank (\$90 000) to pay the dividend, (1) but insufficient retained earnings. (1) Fewer funds for possible future development. (1) Share premium account could be used to issue bonus. (1) Max 4 Accept other valid answers.						4																																																

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4(a)	Method of costing that you apply to the production of a number of identical items. (1) The cost per unit is found by dividing the total batch cost by the number of units in the batch. (1)	2

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4(e)	$ \begin{array}{r} \$ \\ \$71.71 \times 75 \text{ units} = 5\,378.25 \quad (1\text{of}) \\ \text{Profit} \quad \underline{8\,067.38} \quad (1\text{of}) \\ \text{Total selling price} \quad \underline{13\,445.63} \quad (1\text{of}) \end{array} $	3
4(f)	Anna would still make a profit on the order. (1) The order will help ensure the workforce is kept busy. (1) May lead to further orders from Sally. (1) However, Anna's other customers may also start demanding discount, (1) which would reduce Anna's overall profit. (1) Reaction of competitors who may lower their prices. (1) Could lose order if discount not given. (1) 1 mark for decision and 4 marks for justification.	5
4(g)	$ \begin{array}{r} \$ \\ \text{Selling price} \quad 12 \\ - \text{variable costs} \quad \underline{(5)} \\ = \text{contribution} \quad 7 \quad (1) \end{array} \quad \begin{array}{r} \$21000 \\ \underline{\$7} \quad (1\text{of}) \end{array} \quad = 3000 \text{ units } (1\text{of}) $	3

Question	Answer	Marks
4(h)	Non-financial reasons (Max 2) If Anna doesn't fulfil the existing orders, the customers will not be happy / loss of reputation. (1) Could have a knock-on effect for other orders of other products. (1) Can workforce be used elsewhere if they don't make these orders / lay off workers. (1) Morale of employees in existing factory. Financial reasons (Max 2) The orders provide a positive contribution towards fixed costs. (1) At present current level of demand is below break-even point - factory operates at a loss. (1) Demand may increase in the future and make the new factory profitable. (1) How accurate is the financial data. (1) Will closing the factory result in redundancy costs. (1) 1 mark for advice and overall max 3 marks for reasons.	4