

**MARK SCHEME for the October/November 2011 question paper  
for the guidance of teachers**

**9706 ACCOUNTING**

**9706/22**

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

This mark scheme is published as an aid to teachers and candidates, to indicate the requirements of the examination. It shows the basis on which Examiners were instructed to award marks. It does not indicate the details of the discussions that took place at an Examiners' meeting before marking began, which would have considered the acceptability of alternative answers.

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1 (a)

Kirsty

Income Statement (trading and profit and loss account)

for the year ended 30 April 2011

	\$	\$	\$
Revenue (sales) (108 000 – 4 800)			103 200(1)
Opening Inventory (Stock)	3 600		
Ordinary goods purchased (Purchases) (56 000 – 1 800 (1) – 2 500 (1))	<u>51 700</u>		
		55 300	
Less Closing Inventory (Stock)		<u>4 200</u>	
Cost of Sales			<u>51 100</u>
Gross Profit			52 100
Discounts received		400 (1)	
Commission received		880	
Provision for doubtful debts*		<u>216 (3of)</u>	
			<u>1 496</u>
			53 596
<u>Less Expenses</u>			
Rent		4 000	
General expenses		4 800	
Insurance		2 840	
Salaries		14 000	
Electricity		2 380	
Motor expenses		4 900	
Bad debts		200 (1)	
Loan interest		1 500 (1)	
Carriage outwards		700	
Discounts allowed		600 (1)	
Depreciation – equipment		4 920 (1)	
Depreciation – motor vehicles		<u>6 300 (1)</u>	
			<u>47 140</u>
Profit for the year (Net Profit)			<u>6 456</u>

[12]

\*  $6200 - 200 - 800 = 5200 \times 2\% = 104 + 200 = 304$  deducted from 520 = 216

(b)

Kirsty

Statement of Financial Position (Balance Sheet) at 30 April 2011

	\$	\$	\$
<b>Non-Current (Fixed) Assets</b>			
Equipment			29 880
Motor vehicles			<u>18 900</u>
			48 780 (1)
<b>Current Assets</b>			
Inventory (stock)	4 200		
Trade receivables (debtors)	5 096		
Insurance prepaid	460 (1)		
Bank	3 400		
Commission receivable	<u>150 (1)</u>		
	13 306		
<b>Current Liabilities</b>			
Trade payables (creditors)	3 800		
Loan interest owing	250		
Electricity owing	380 (1)		
Loan	<u>7 500 (1)</u>		
	11 930		
Working capital			<u>1 376</u>
Total assets less current liabilities			50 156
<b>Non-Current (long term) Liabilities</b>			
Loan		<u>7 500 (1)</u>	
			<u>7 500</u>
			<u>42 656</u>
<b>Financed by:</b>			
Capital			44 000
Profit for the year (Net Profit)			<u>6 456 (1of)</u>
			50 456
Drawings			<u>7 800 (1)</u>
			<u>42 656</u>

[8]

(c)  $54\,000 + 1\,000 + 2\,000 = 57\,000$  (2)

[2]

(d)  $(57\,000 - 4\,000 (1)) / 5 = 10\,600$  (1)

[2]

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(e)

**Disposal of Machinery**

	\$		\$
Machinery	57 000 (1)	Depreciation	42 400 (1)
		Bank (1)	12 000 (1)
		Profit and Loss (1)	<u>2 600 (1)</u>
	<u>57 000</u>		<u>57 000</u>

[6]

[Total 30]

2 (A) (a)

**Sales Ledger Control Account**

	\$		\$
Balance b/d	43 900 (1)	Bank	436 300
Credit Sales	522 250 (1)	Returns Inwards	30 110 (1)
Dishonoured Cheques	2 200	Bad Debts	9 250 (1)
Interest charged	30 (1)	Contra (purchases ledger)	5 190 (1)
		Discount allowed	28 800
		Balance c/d (closing debtors)	<u>58 730</u>
	<u>568 380</u>		<u>568 380</u>

[6]

Alternative answer

**Sales Ledger Control Account**

	\$		\$
Balance b/d	63 530 (1)	Bad debts	850 (1)
Interest charged	30 (1)	Contra / set off	1 980 (1)
		Goods on return basis	400 (1)
		Sales returns	1 600 (1)
		Balance c/d (closing debtors)	<u>58 730</u>
	<u>568 380</u>		<u>568 380</u>

(b)

Schedule of Trade Receivables (debtors)

	\$
Opening balance	61 140 (1)
Error 1	180 (1)
Error 3	-240 (2)
Error 4	-1 980 (1)
Error 5	30 (1)
Error 6	<u>-400 (1)</u>
	<u>58 730 (1of)</u>

[8]

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- (c) Provides an independent check on the postings in the sales ledger.  
 Errors in the ledger can be located quickly.  
 Segregation of duties helps in the prevention of fraud because members of staff complete the control accounts are not involved in completing the sales ledger.  
 Totals of trade receivables (debtors) from control accounts can be determined quickly and used in preparation of the trial balance and final accounts.

**(Any two points – 2 each)** [4]

**2(B) (a)** Profit for the year =  $(880\,000 \times 25\%) - 130\,000 = \$90\,000$  (2) [2]

(b) (i) Return on capital employed =  $\frac{\text{Profit for year}}{\text{Capital Employed}} \times 100$   
 =  $\frac{90\,000}{1\,125\,000} \times 100$   
 = 8% (2of)

(ii) Inventory Turnover =  $\frac{\text{Cost of sales}}{\text{Average stock}}$   
 =  $\frac{880\,000}{(45\,000 + 65\,000) / 2}$   
 =  $\frac{880\,000}{55\,000}$   
 = 16 times (2)

(iii) Liquid (acid test) ratio =  $\frac{\text{Current Assets} - \text{Closing Stock}}{\text{Current Liabilities}}$   
 =  $\frac{(65\,000 + 150\,000) - 65\,000}{100\,000 + 50\,000}$   
 =  $\frac{150\,000}{150\,000}$   
 = 1:1 (2) [6]

**(c) Paradis Foods**

- The return on capital employed is high at 15%. It is higher than S Turner is currently obtaining.
- The current ratio is good and possibly too high with excess stock. The level of the current ratio is well in excess of S Turners'.
- The liquid ratio seems low for a general trading business.

**Jones Wholesaler**

- The return on capital employed is low at 6%. It is much lower than S Turner is currently obtaining.
- The current ratio is good and within the range of 1.5 and 2.0 that we would expect to see.
- The liquid ratio is high at 1.4 : 1 indicating high debtors or cash.

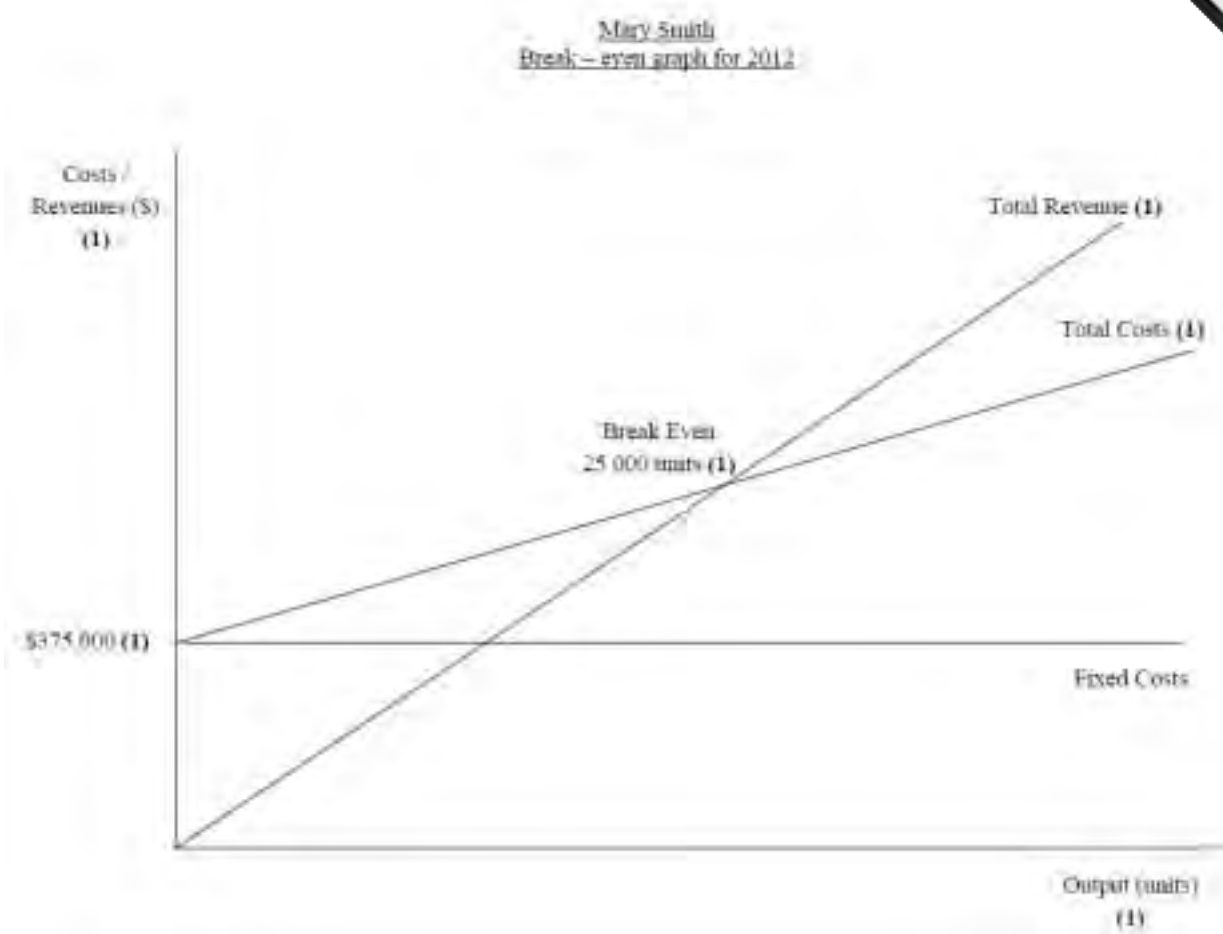
**(Any three points – 1 each + 1of for decision)** [4]

**[Total 30]**

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- 3 (a) (i) Selling price per unit 35 (1)
- Variable costs per unit
- |                       |           |     |
|-----------------------|-----------|-----|
| Direct materials      | 8 (1)     |     |
| Direct labour         | 10 (1)    |     |
| Direct overheads      | 2 (1)     |     |
|                       | <u>20</u> |     |
| Contribution per unit | 15 (1of)  | [5] |
- (ii)  $180\,000 (1) / 15 (1of)$   
 $= 12\,000 (1of)$  units [3]
- (iii) Margin of safety =  $25\,000 (1) - 12\,000 (1of) = 13\,000$  units  
 $13\,000 / 25\,000 (1) \times 100 = 52\% (1of)$  [4]
- (b) Depreciation  
Admin costs                  Rent  
Insurance                    Advertising/marketing  
Rates                          Indirect wages  
Loan interest  
**Or other suitable alternative.**
- (Any three examples – 1 mark each)** [3]
- (c) Stepped costs occur when a business increases capacity. As a result of expansion overheads such as insurance, rent and rates and bank interest payments are likely to increase. On a break even chart these increases would result in a horizontal fixed cost line moving to a higher level beyond the output at which increased capacity occurs.
- (2 × 1 mark)** [2]

(d)



Marks awarded for label or figure and label where both are given

[6]

(e) If budgeted data is reasonably accurate and the budgeted level of activity could be maintained in future years then the business would generate more **profits** (\$225 000 v \$195 000) by increasing capacity.

The **margin of safety** will also be higher in unit terms (15 000 v 13 000) but lower in percentage terms (37.5% v 52%).

The business will make no profit following expansion if sales return to the previous level as the new **break-even** is the same as the previous sales / output.

The **capital cost** of \$3 000 000 is likely to result in interest payments which would have to be met irrespective of profit performance.

(2 × 3 marks + 1 mark for evaluation)

[7]

[Total: 30]