Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

Paper 2 Structured Questions (Core) **October/November 2016**

MARK SCHEME

Maximum Mark: 90

Published

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.

Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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1 (a)

	9 months		3 months		
	$		$		
Profit from operations	9450		3150		**(1 for both profits)**
Less loan interest:	900		240		
Profit before appropriation	8550	**(1)**	2910	**(1)**	

Workings: **[3]**

(b)

Tom and Jerry
Appropriation Account for the year ended 30 November 2015

		9 months		3 months			
		$		$		$	
Profit before appropriation		8 550				2 910	
Interest on drawings:							
	Tom			60			
	Jerry			21		81	**(1)**
Salary:	Tom					(4 054)	**(1)**
Interest on capital:							
	Tom			(1 800)			
	Jerry			(1 080)		(2 880)	**(1)**
Remaining profit / loss		8 550				(3 943)	**(1) OF for both**
Split of remaining profit / loss:							
	Tom	4 275	**(1)OF**	(2 366)	**(1)OF**		
	Jerry	4 275	**both**	(1 577)	**both**		
		8 550				(3 943)	

[6]

(c)

Current accounts

	Tom	Jerry			Tom	Jerry	
Balance b/d		10 800		Balance b/d	18 000		
Interest on drawings	60	21	**(1)OF**	Salary	4 054		**(1) OF**
Drawings	8 000	2 800	**(1)**	Interest on capital	1 800	1 080	**(1) OF**
Loss	2 366	1 577	**(1)OF**	Loan interest	1 140		**(1) OF**
				Profit share	4 275	4 275	**(1) OF**
Balance c/d	18 843			Balance c/d		9 843	
	29 269	15 198			29 269	15 198	
Balance b/d		9 843		Balance b/d	18 843		**(1) OF**

[8]

(d) Capital expenditure is expenditure on non-current assets **(1)** with an expected life of more than 12 months **(1)** **Max 1**
Revenue expenditure is expenditure on running costs to generate income / day-to-day operating expenses **(1)** **Max 1** **[2]**

(e) Consistency **(1)**
- to assist comparisons of performance between years. **(1)**
- using the same depreciation method each year. **(1)**

OR

Prudence **(1)**
- avoid overstating profits / net assets **(1)**
- charging depreciation as an expense and so not overstating profits **(1)**

OR

Accruals / matching **(1)**
- match the cost of an asset with the income generated from its use **(1)**
- matching wear and tear of the asset against the reduction in value **(1)** **[3]**

(f) **(i)** Possible options could include:

- External loan
- Partner's loan
- Introduce new partner
- Partner introduces additional capital
- Sale of unused non-current assets
- Hire purchase

Award 1 mark for identifying source plus max 2 marks for development (max 3 marks per source)

For example
Bank loan **(1)**
Has to be paid back with interest at either a fixed or variable rate **(1)**. May require security / collateral to cover the possibility of loan default **(1)**.

Introduce new partner **(1)**
Would introduce capital which doesn't need to be repaid **(1)**. The partner would however expect a share of the profits **(1).** **[6]**

(ii) 1 mark for a decision about the source of funding and max 1 mark for any justification of the outcome. **[2]**

[Total: 30]

2 (a)

	Share capital	Share premium	General reserve	Revaluation reserve	Retained earnings	Total
At 1 January 2015	$ 240 000	$ 8 000	$ 40 000	$ –	$ 75 500	$ 363 500
Share issue	20 000 **(1)**	1 000 **(1)**				21 000
Final dividend					(7 200) **(1)**	(7 200)
Revaluation				20 000 **(1)**		20 000
Profit for the year					47 100 **(1)**	47 100
At 31 December 2015	260 000	9 000	40 000	20 000	115 400	444 400

[5]

(b)

	Share capital	Share premium	General reserve	Revaluation reserve	Retained earnings	Total
At 31 December 2015	$ 260 000	$ 9 000	$ 40 000	$ 20 000	$ 115 400	$ 444 400
Profit					25 000 **(1)**	25 000
Bonus issue	10 400 **(1)**	(9 000) **(1OF)**		(1 400) **(1OF)**		–
At 30 June 2016	270 400	–	38 600	20 000	140 400	469 400

[4]

(c)

Ordinary shares	**Debentures**
Variable returns	Fixed returns
Owners	Creditors
Receive dividend	Receive interest
Paid dividend after debenture holders	Paid interest before ordinary shareholders
Voting rights	No voting rights
Not repaid	Must be repaid
In case of liquidation paid last	In case of liquidation paid first

Any 2 differences 2 marks **[4]**

(d) The debenture loan is repayable between the years 2018 and 2020 **(1)** **[1]**

(e) Because it is a long term liability **(1)** and is shown as a non-current liability in the statement of financial position. **(1)**
Max 1 **[1]**

[Total: 15]

3 (a) (i) Examples
A suspense account is a temporary account used to balance the trial balance **(1)**
Used to help correct errors when the trial balance / books of account do not balance **(1)**
Max 1 **[1]**

(ii) Answers could include:

It improves the accuracy of the sales ledger by identifying some errors **(1)**.
It enables a reconciliation to be made between the sales ledge control account and the individual accounts in the sales ledger to enable errors to be identified and corrected **(1)**.
It provides a total of trade receivables to be used in the trial balance and financial statements **(1)**.
Reduces the possibility of fraud as a result of segregation of duties **(1)**
Max 3 **[3]**

(b)

	Debit $	Credit $	
Sales	26 350		**(1)**
Suspense		26 350	**(1OF)**
Motor expenses	5 270		**(1)**
Motor vehicles		5 270	**(1 OF)**
Provision for depreciation	1 054		**(1)**
Depreciation charge		1 054	**(1OF)**
Suspense	17 890		**(1)**
Interest received		17 890	**(1OF)**

[8]

(c)

	Profit before correction		Profit after correction	
	Understated	Overstated	Increase	Decrease
	$	$	$	$
Sales		26 350 **(1)**		26 350 **(1)**
Motor expenses		5 270 **(1)**		5 270 **(1)**
Depreciation	1 054 **(1)**		$1 054 **(1)**	
Interest received	17 890 **(1)**		$17 890 **(1)**	

Accept amounts or an indication of increase / decrease.

Max 3 marks **[3]**

[Total: 15]

4 (a) (i)

	X		Y	
Selling price	48		54	
Variable costs	40		45	
Contribution	8	**(1)**	9	**(1)**

[2]

(ii)

X: 5000 × 4	20 000	**(1)**
Y: 7000 × 6	42 000	**(1)**
Total hours	62 000	

[2]

(b)

	X	Y	
Contribution per unit	$8	$9	
Labour hours	4	6	
Contribution per labour hour	$2	$1.5	**(1OF)**
Rank	1st	2^{nd}	**(1OF)**

	$	
X: 5 000 units × $8	40 000	**(1OF)**
Y: 6 500 units × $9	58 500	**(1OF)**
Total contribution	98 500	
Fixed costs:		
5 000 × $5.75	(28 750)	**(1)**
7 000 × $4.80	(33 600)	**(1)**
Maximum profit	36 150	**(1OF)**

[7]

(c) (i) **Option 1**
Calculation (Max 2)
Contribution would be an extra $1050 **(2 / 1OF)**
OR profit would be $37 200 **(2 / 1OF)**

Evaluation (Max 3)
- Quality / reputation is maintained via in house production **(1)**
- Will quality and productivity be affected by working overtime **(1)**
- There would be no delivery implications due to in-house production **(1)**
- Positive contribution / increased profit, but less than the outsourcing option **(1)**
- Will staff be willing to work overtime **(1)**

(3 marks + 2 marks for calculation) Max 5

Option 2
Calculation (Max 2)
Contribution would be an extra $2000 **(2 / 1OF)**
OR profit would be $38 150 **(2 / 1OF)**

Evaluation (Max 3)
- Need to consider the reliability of supply and delivery **(1)**
- Need to consider the quality of the products **(1)**
- Higher risk but larger financial returns **(1)**
- Effect on morale of staff if using external supplier **(1)**
- Possibility of loss of market to competitor **(1)**

(3 marks + 2 marks for calculation) Max 5
Overall max 10 marks **[10]**

(ii) **1 mark** for decision between option 1 and 2.
2 marks for justification of option chosen **[3]**

(d) (i) Advantages:
- Assists with planning for the future **(1)**
- Helps to monitor performance **(1)**
- Compares budget and actual, identifying, variances enabling corrective action to be taken **(1)**
- Enables delegation to departments **(1)**
- Assists with decision making **(1)**
- Helps with responsibility accounting / enables assessment of managers **(1)**
- May motivate staff **(1)**

Max 3 **[3]**

(ii) Disadvantages:
- Budgets are an estimate and could be inaccurate **(1)**
- Budget are time consuming and/or expensive to create and monitor **(1)**
- Could lead to conflict between departments **(1)**
- Could demotivate employees **(1)**
- May have to employ specialist staff **(1)**
- Budget may be set an unrealistic level **(1)**
- Does not take account of unforeseen circumstances **(1)**
- Can restrict staff innovation **(1)**

Max 3 **[3]**

[Total: 30]