Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2017**

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.

Cambridge will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

Question	Answer						Marks
1(a)			$		$		**17**
	Revenue				563 800		
	Cost of sales						
	Opening inventory		62 400				
	Purchases		268 200				
			330 600				
	Closing inventory		70 300		260 300	**(1)**	
	Gross profit				303 500	**(1)OF**	
	Deduct: expenses						
	Directors remuneration		53 200	**(1)**			
	Office costs	W1	41 070	**(4)**			
	Property costs	W2	22 000	**(3)**			
	Selling and distribution costs	W3	73 500	**(4)**	189 770		
	Profit from operations				113 730	**(1)OF**	
	Finance costs				5 920	**(1)**	
	Profit for the year				107 810	**1OF**	

Workings

W1	Office costs	$18 330 + $1920 **(1)** + $19 400 **(1)** + $1420 **(1)** = $41 070 **(1)OF**
W2	Property costs	$21 940 + $1300 **(1)** – $1240 **(1)** = $22 000 **(1)OF**
W3	Selling and distribution costs	$36 120 + $5600 **(1)** + $29 100 **(1)** + $2680 **(1)** = $73 500 **(1)OF**
	Depreciation Buildings	$65 000 × 2% = $1300
	Depreciation Fixtures & Fittings	($18 110 – $5310) × 15% = $1920
	Depreciation Motor vehicles	($41 600 – $19 200) × 25% = $5600

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Current assets</td><td></td><td></td><td></td></tr>
<tr><td>Inventory</td><td></td><td>70 300</td><td></td></tr>
<tr><td>Trade and other receivables</td><td>W1</td><td>70 820</td><td>(2)</td></tr>
<tr><td>Cash and cash equivalents</td><td>W2</td><td>10 210</td><td>(2)</td></tr>
<tr><td>Total</td><td></td><td>151 330</td><td></td></tr>
</table>
Workings
W1 Trade and other receivables $71 000 – $1420 (1) + $1240 (1) = $70 820
W2 Cash and cash equivalents $14 040 + $26 400 (1) – $50 000 (1) + $650 = $10 210
Award 1 mark for presentation / labels
</td><td>5</td></tr>
<tr><td>1(c)</td><td>Allowing for depreciation:

To comply with the matching / accruals concept (1)
Accounts for that part of the asset used up in the accounting period (1)
The value of assets falls due to wear and tear, obsolescence, technological change, etc. (1)
Avoids overstating the net assets / non-current assets of the business (1)
Ensures that the statement of financial position shows a true and fair view (1)

Max 4</td><td>4</td></tr>
<tr><td>1(d)</td><td>Differences:

Ordinary shares carry voting rights (1), preference shares do not carry voting rights (1)
Ordinary shareholders receive a variable dividend (1), preference shareholders receive a fixed rate of dividend (1)
Ordinary share dividends are discretionary (1), preference share dividend is mandatory if sufficient profits are available (1)
Preference shareholders receive dividend before (1) ordinary shareholders (1)
In the event of liquidation preference shareholders are repaid their capital before (1) ordinary shareholders (1)

Max 4</td><td>4</td></tr>
</table>

Question	Answer	Marks
2(a)	Uses historical information. **(1)** Does not take seasonality into account **(1)** May use subjective data **(1)** Based on purely quantitative information **(1)** Does not explain the cause **(1)** Does not take inflation into account **(1)** **1 mark for each valid point to a mx of 2 marks**	**2**
2(b)	Current assets: 152 000 + 31 275 + 1725 / 129 000* + 19 000 = 185 000 **(1)** Current liabilities: (54.75 / 365 × 860 000 = 129 000) **(1)** + $19 000 = 148 000 **(1)OF** Current ratio: 185 000 / 148 000 = 1.25:1 **(1)OF**	**4**
2(c)	(185 000 – 152 000) / 148 000 = 0.22 : 1 **(1)OF**	**1**
2(d)	Opening inventory: 1042 500 x 80% = 834 000 **(1)** – 860 000 +152 000 = 126 000 **(1)OF** Average inventory: (126 000 + 152 000) / 2 = 139 000 **(1)OF** Rate on inventory turnover: 6 (times) **(1)OF**	**4**

Question	Answer	Marks
2(e)	Wiggins cannot pay debts from short term assets without relying on inventory because the liquid (acid test) ratio is significantly below 1 : 1 (0.22 : 1) **(1)** **For (Max 2)** A long term loan will allow Wiggins to plan repayments over five years **(1)** Enables Wiggins to repay the bank overdraft **(1)** Loan is cheaper than bank overdraft **(1)** **Against (Max 2)** Wiggins already has a bank overdraft of $19 000 **(1)** Wiggins may be charged a higher interest rate on loan **(1)** Bank loan will increase its gearing ratio **(1)** Bank may require security for a loan **(1)** **1 mark decision** **Overall max 3 marks justification**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Share profits and losses equally (1)
Partners are not entitled to salaries (1)
Partners are not charged interest on their drawings (1)
Entitled to contribute equally to the capital of the partnership (1)
Partners are not entitled to interest on the capital they have contributed (1)
Partners are entitled to interest at 5% per annum on loans they make to the partnership (1)

Max 4</td><td>4</td></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td></td><td>Amit
$</td><td></td><td>Wang
$</td><td>Susi
$</td><td></td><td>Amit
$</td><td></td><td>Wang
$</td><td>Susi
$</td><td></td></tr>
<tr><td>Goodwill</td><td></td><td></td><td>21 000</td><td>21 000</td><td>Balance b/d</td><td>40 000</td><td></td><td>40 000</td><td>40 000</td><td></td></tr>
<tr><td>Loan</td><td>69 100</td><td>(1)OF</td><td></td><td></td><td>Goodwill</td><td>14 000</td><td></td><td>14 000</td><td>14 000</td><td>(1)*</td></tr>
<tr><td>Bank</td><td>15 000</td><td>(1)</td><td></td><td></td><td>Current</td><td>27 600</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Balance c/d</td><td>______</td><td></td><td>35 500</td><td>35 500</td><td>Revaluation</td><td>2 500</td><td></td><td>2 500</td><td>2 500</td><td>(1) row (1)</td></tr>
<tr><td></td><td>84 100</td><td></td><td>56 500</td><td>56 500</td><td></td><td>84 100</td><td></td><td>56 500</td><td>56 500</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td></td><td>Balance b/d</td><td></td><td></td><td>35 500</td><td>35 500</td><td>(1) OF row</td></tr>
</table>

* Goodwill – 1 mark for both debit and credit entries</td><td>6</td></tr>
<tr><td>3(c)</td><td>Depends on the agreement on the initial loan
Current loan is free of interest
May need additional capital
Partnership has insufficient liquid assets at present
May have to take loan / overdraft which will be charged interest
Interest would reduce the future profit
May require security for loan

1 mark for decision and 4 marks for justification.</td><td>5</td></tr>
</table>

Question	Answer	Marks
4(a)	<table><tr><td></td><td>$</td><td>$</td><td></td></tr><tr><td>Sales revenue</td><td></td><td>203 000</td><td></td></tr><tr><td>Variable costs</td><td></td><td></td><td></td></tr><tr><td>Direct materials</td><td>48 140</td><td></td><td></td></tr><tr><td>Direct labour</td><td>38 860</td><td></td><td></td></tr><tr><td>Production overheads</td><td>23 200</td><td></td><td></td></tr><tr><td>Selling expenses</td><td>20 300</td><td>130 500</td><td>**(1)**</td></tr><tr><td>Contribution</td><td></td><td>72 500</td><td>**(1)OF**</td></tr><tr><td>Fixed costs</td><td></td><td></td><td></td></tr><tr><td>Production overheads</td><td>20 450</td><td></td><td></td></tr><tr><td>Administration overheads</td><td>32 250</td><td></td><td></td></tr><tr><td>Selling expenses</td><td>15 600</td><td>68 300</td><td>**(1)**</td></tr><tr><td>Profit for the quarter</td><td></td><td>4 200</td><td>**(1)OF**</td></tr></table>	**4**
4(b)	Contribution per unit: 72 500 / 58 000 = $1.25 **(1)OF** Breakeven point: 68 300 / 1.25 = 54 640 units **(1)OF**	**2**
4(c)(i)	Proposal A <table><tr><td></td><td></td><td>$</td><td></td></tr><tr><td>Variable costs</td><td>130 500 – (58 000 × $0.10) – (203 000 × 2%)</td><td>120 640</td><td>**(1)OF**</td></tr><tr><td>Variable costs per unit</td><td>120 640 / 58 000</td><td>2.08</td><td>**(1)OF**</td></tr><tr><td>Contribution per unit</td><td>3.50 – 2.08</td><td>1.42</td><td></td></tr><tr><td>Fixed costs</td><td>68 300 – 12 000</td><td>56 300</td><td>**(1)OF**</td></tr></table>	**4**
4(c)(ii)	Proposal B <table><tr><td></td><td></td><td>$</td><td></td></tr><tr><td>Variable costs</td><td>130 500 + (58 000 × $0.15) + (58 000 × 0.35 × 10%) **(1)**</td><td>141 230</td><td>**(1)OF**</td></tr><tr><td>Variable costs per unit</td><td>141 230 / 58 000</td><td>2.435</td><td>**(1)OF**</td></tr><tr><td>Contribution per unit</td><td>3.85 – 2.435</td><td>1.415</td><td></td></tr><tr><td>Fixed costs</td><td>68 300 + 5000 **(1)** – 12 000</td><td>61 300</td><td>**(1)OF**</td></tr><tr><td>To achieve profit</td><td>(61 300 + 20 000) / 1.415</td><td>57 456 units</td><td>**(1)OF**</td></tr></table>	**6**

Question	Answer	Marks
4(d)	Proposal A Benefits (Max 2) • Breakeven point reduces from 54 640 units to 53 733 units • Reduced cash outflows on direct materials and administrative expenses Proposal A Drawbacks (Max 2) • Reduced sales commission may result in fewer agency sales • Reduced administrative backup may hinder growth • Less expensive direct material may affect quality • Redundancy will incur costs / demotivate staff / result in bad image Proposal B Benefits (Max 2) • Opportunity to market new improved product • More expensive direct material may enhance quality • Opportunity to raise awareness with advertising spend • Sales commission retained at current level Proposal B Drawbacks (Max 2) • Breakeven point increases from 54 640 units to 57 456 units • Reduced administrative backup may hinder growth • Increased cash outflow of direct materials and advertising • Will sufficient sales be made to reach breakeven point? • Redundancy will incur costs / demotivate staff / result in bad image **1 mark for recommendation.** **Overall max 7 marks for benefits and drawbacks**	**8**

Question	Answer	Marks
4(e)	Advantages: • Facilitates longer term planning • Promotes co-ordination between departments • Enables monitoring and control • Can act as motivation for employees • Helps the allocation and use of resources • May provide a framework for delegation / responsibility accounting • Aids decision making Disadvantages: • Can discourage innovation • May de-motivate staff if set too challenging • May prevent progress if set too undemanding • Can be a time consuming and costly operation • May require specialist staff • May cause conflict between departments regarding the allocation of resources **1 mark for each valid point**	**6**