GradeMax

Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/21**

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.

® IGCSE is a registered trademark.

© UCLES 2017

Question	Answer	Marks
1(a)	|	| | |

GradeMax

Question	Answer	Marks
1(f)	$$\begin{array}{lrl} & \$ & \\ \text{Original profit} & 71\,000 & \\ \text{Error 1} & (90) & \textbf{(1)} \\ \text{Error 2} & (100) & \textbf{(1)} \\ \text{Error 3} & 1\,200 & \textbf{(1)} \\ \text{Revised gross profit} & 72\,010 & \textbf{(1)OF} \end{array}$$	**4**
1(g)	A revenue reserve is profit retained by the directors and is the property of the ordinary shareholders. Source of capital reserve is from issuing capital, that is, share premium. Revenue reserves can be used to pay cash dividends from retained profits. Capital reserves help protect creditors. Capital reserves cannot be used to pay cash dividends but can be used for bonus shares. **(2 marks) × 2 points** – 1 mark for basic point and 1 for development	**4**
	Total:	**30**

Question	Answer	Marks
2(a)	Realisation account |	| \$ | | | | \$ | | | Premises | 40 000 | | Trade payables | 9 800 | | | Machinery | 32 000 | | Bank (trade receivables) ** | 12 600 | | | Motor vehicles | 18 000 | | Bank (inventory) ** | 15 000 | | | Inventory | 18 600 | | Bank (machinery) ** | 35 000 | **(1**)** | | Trade receivables | 13 100 | | Amit (premises) | 30 000 | **(1)** | | Bank (trade payables) | 9 800 | **(1)** | Binu (motor vehicle) | 6 500 | **(1)** | | Dissolution expenses | 6 300 | | Bank (motor vehicles) | 12 000 | **(1)** | | | | | Capital account – Amit # | 10 140 | | | | | | Capital account – Binu # | 6 760 | **(1#)** | | | 137 800 | | | 137 800 | |	**6**
2(b)	| | | |

Question	Answer	Marks
3(a)	It enables checking transactions through the use of a trial balance and control accounts. It enables the production of the income statement and statement of financial position to be compiled more easily. It shows the amount due to individual customers and suppliers thus avoiding overpayment. Helps guard against errors / fraud. **(1 mark)** × 3 points	**3**
3(b)	Sales ledger control account Description — Add ($) — Less ($) — Total ($) Opening balance — — — 33 205 Error in sales journal — 1 649 **(1)** — — Irrecoverable debt omitted — — 420 **(1)** — Credit omitted — — 160 **(1)** — Totals — 1 649 — 580 — 1 069 Corrected balance — — — 34 274 Sales ledger balances Description — Add ($) — Less ($) — Total ($) Opening balance — — — 34 524 Less error in cheque entry — — 90 **(1)** — Less credit omitted — — 160 **(1)** — Total — — 250 — (250) Corrected balance — — — 34 274 **(1) both**	**6**
3(c)	A customer has overpaid in error A credit has been given and the customer has not taken A contra has been put through but the customer has ignored it. A customer has paid in advance Not taking a discount There is a deposit on goods. Customer paid for the goods before returning them. Customer overpaid and invoice **(1 mark)** × 3 points	**3**
3(d)	May improve trade receivables collection period. Improve cash flows Meena may lose customers May need tighter credit control which may increase cost **Decision (1 mark)** **Justification (2 marks)**	**3**
	Total:	**15**

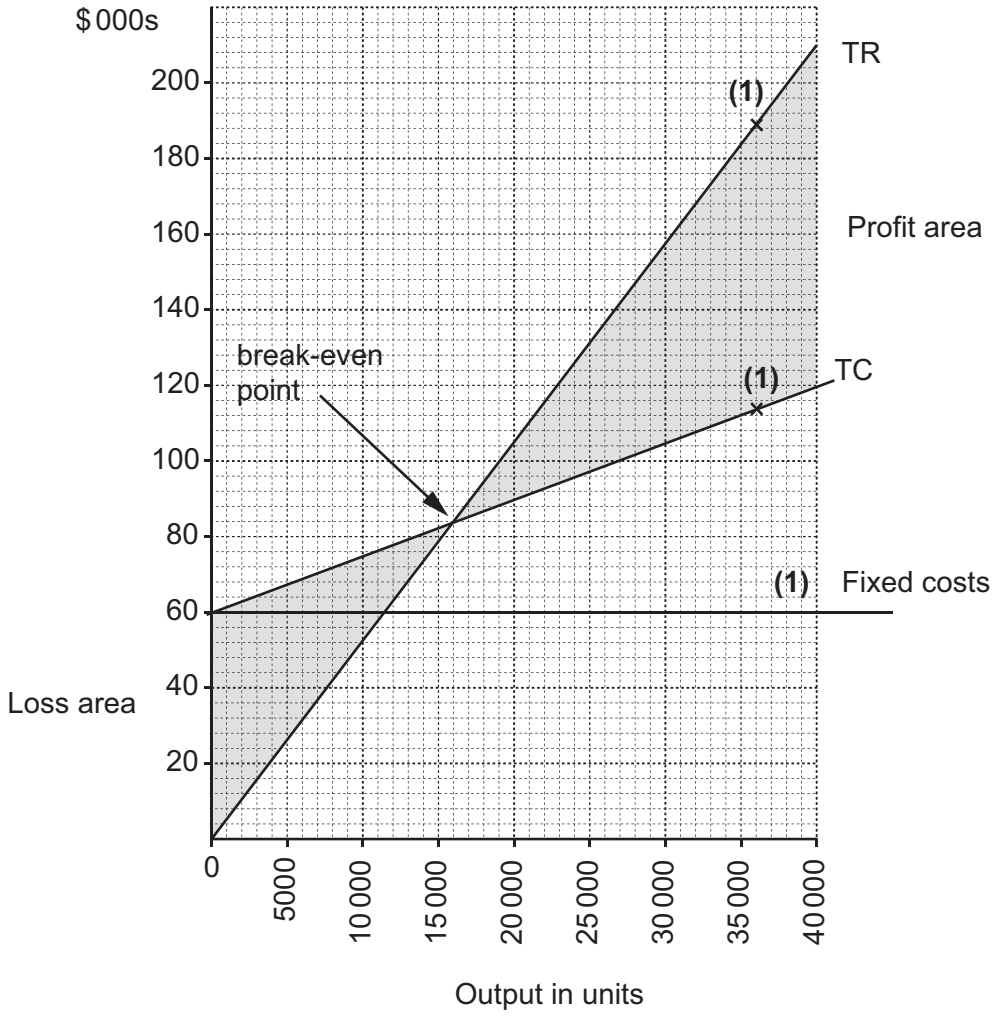
GradeMax

Question	Answer	Marks
4(a)	$ $ Selling price 5.25 Direct materials 0.50 Direct labour 0.75 Direct expenses 0.25 1.50 3.75 Contribution per unit: 3.75 **(1)** × 16 000 units **(1)** = $60 000 **(1)**	**3**
4(b)(i)	$ Fixed costs 60 000 + Profit 75 000 Contribution required: 135 000 **(1)OF** ÷ 3.75 = 36 000 units **(1OF)**	**2**
4(b)(ii)	$\frac{\$3.75^*}{\$5.25^*}$ = 71.43% **(1)OF** ***1 OF both**	**2**
4(c)	It shows how much contribution is earned from each $1 of sales revenue **(1)**	**1**
4(d)(i)	It represents the margin of safety **(1)**	**1**
4(d)(ii)	The amount by which actual sales can fall short of the budgeted sales before he reaches break-even point **(1)** and then makes no profit **(1)**.	**2**

© UCLES 2017

Question	Answer	Marks
4(e)		**7**

	Units	$	
Total revenue (TR)	0,	0	
	0,	189 000	36 000 units × $5.25
Fixed costs (FC)	0,	60 000	
Total costs (TC)	0,	60 000	
	36 000,	114 000	36 000 units × $1.50 = 54 000 + 60 000



Marks (incl labels) 1 × 3 = 3 marks
1 mark profit area, 1 mark loss area and 1 mark break-even point
1 mark for axis

GradeMax

Question	Answer	Marks
4(f)	Limitations: • Some costs are not easily classified as fixed or variable. • Some costs are semi-variable. • It assumes fixed costs stay the same. • Straight lines can be misleading – discounts can cause curved lines. • A chart can be time consuming to prepare. • It assumes the selling price is constant at all levels of output. • It can be misleading for those with limited accounting knowledge. • Can only be applied to one product at a time **(1 mark)** × any 3 limitations, max 3	**3**
4(g)	New contribution = 6.00 – 1.50 = $4.50 **(1)** Fixed cost $60 000 Profit $75 000 Target 135 000 **(1)** Sales per month = (135 000 / 4.50) **(1)OF** = 30 000 / 12 **(1)** = 2500 units **(1)OF**	**5**
4(h)	Proceed because • It covers the budgeted total costs and provides a profit. • It provides a positive contribution. Need to bear in mind • The market price of similar products. • How innovative is his product to justify the price increase / will customers expect higher quality for higher price. • Will customers accept the increase or go elsewhere / decrease in demand. • Fixed costs are covered for now but they may change in the future. • Short term view – he could lose profit in the long term. **Advice 1 mark** **(1 mark)** × any 3 reasons, max 3	**4**
	Total:	**30**

© UCLES 2017