GradeMax

Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

Paper 2 Structured Questions **October/November 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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE®, Cambridge International A and AS Level components and some Cambridge O Level components.

® IGCSE is a registered trademark.

© UCLES 2017

GradeMax

Question	Answer	Marks
1	Ross Income Statement for the year ended 31 March 2017 Revenue 92 520 **(1)** Returns inwards (1 240) **(1)** 91 280 Cost of sales Opening inventory 21 640 **(1)** Purchases 38 950 Returns outwards (440) **(1)** 60 150 Closing inventory **W1** (25 900) **(2)** 34 250 Gross profit *(must be labelled)* 57 030 **(1of)** Deduct: expenses Carriage outwards 1 090 **(1)** Property rental **W2** 13 920 **(2)** Heating and lighting 1 940 Travel expenses 2 060 General expenses 6 690 Irrecoverable debt written off 1 250 **(1)** Depreciation 1 490 **(1)** 28 440 Profit for the year *(must be labelled)* 28 590 **(1of)** **W1** (23 400 **(1)** + 2500 **(1)**) **W2** (16 240 **(1)** – 2320 **(1)**)	**13**

© UCLES 2017

GradeMax

Question	Answer	Marks
1(b)	Ross Statement of Financial position at 31 March 2017 $ **Non-current assets** Shop fittings – cost 11 930 provision for depreciation 3 320 **(1)** 8 610 **(1of)** **Current assets** Inventory 25 900 **(1of)** Trade receivables 11 620 **(2of)** Prepayments 3 240 **(1)** Bank 390 **(1)** 41 150 **Total assets** 49 760 **Capital account** Balance brought forward 10 950 **(1)** Capital introduced 3 000 **(1)** Profit for the year 28 590 **(1of)** 42 540 Deduct: drawings 8 600 **(1)** 33 940 **Non-current liabilities** Bank loan 4 290 **(1)** **Current liabilities** Trade payables 6 440 Accruals 800 **(1)** Bank loan 4 290 49 760 **Workings** Trade receivables 12 870 **(1)** – 1250 = 11 620 **(1)OF**	**13**
1(c)	Application of prudence concept **(1)** Trade receivables/Current assets/profit may be overstated **(1)** Application of matching/accruals concept **(1)** Matches the cost of the provision against the relevant year **(1)** **(1 mark for advice + max 3 for justification).**	**4**

© UCLES 2017

GradeMax

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>
Sales ledger control account
<table>
<tr><td>Description</td><td>Add ($)</td><td></td><td>Less ($)</td><td></td><td>Total ($)</td></tr>
<tr><td>Opening balance</td><td></td><td></td><td></td><td></td><td>93 185</td></tr>
<tr><td>Sales journal</td><td></td><td></td><td>30 420</td><td>(1)</td><td></td></tr>
<tr><td>Interest on late payment</td><td>720</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Sales returns journal</td><td>4 560</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Discount allowed</td><td></td><td></td><td>1 520</td><td>(1)</td><td></td></tr>
<tr><td>Bank receipts</td><td>18 965</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Closing balance</td><td></td><td></td><td></td><td></td><td>85 490</td></tr>
</table>
(1cf)

Sales ledger balances
<table>
<tr><td>Description</td><td>Add ($)</td><td></td><td>Less ($)</td><td></td><td>Total ($)</td></tr>
<tr><td>Opening balance</td><td></td><td></td><td></td><td></td><td>78 370</td></tr>
<tr><td>Dishonoured cheque</td><td>9 745</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Interest on late payment</td><td>720</td><td>(1)</td><td></td><td></td><td></td></tr>
<tr><td>Discount allowed</td><td></td><td></td><td>1 520</td><td>(1)</td><td></td></tr>
<tr><td>Irrecoverable debt w/off</td><td></td><td></td><td>1 825</td><td>(1)</td><td></td></tr>
<tr><td>Closing balance</td><td></td><td></td><td></td><td></td><td>85 490*</td></tr>
</table>
1OF

Note: * Final balances must be the same amount in the sales ledger control account and the sales ledger balances to be awarded own figure mark.
</td><td>11</td></tr>
<tr><td>2(b)</td><td>
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)

(1 mark for a valid point, up to max of 4 marks).
</td><td>4</td></tr>
</table>

© UCLES 2017

GradeMax

Question	Answer	Marks
3(a)(i)	84 695 × 20% = $16 939 **(1)** New equipment 12 785 + 1595 = 14 380 × 20% × 3 / 12 = 719 Total depreciation = 16 939 + 719**(1)** = $17 658	**2**
3(a)(ii)	K Limited Motor vehicle disposal account 2016 Dec 31 Motor vehicles cost $ 14 850 **(1)** 2016 Dec 31 Provision for depreciation of motor vehicles $ 4 795 **(1)** Bank $ 8 900 **(1)** Apr 30 Income statement $ 1 155 **(1of)** 14 850 = 14 850 Workings Motor vehicle sold: Bought Aug 1 2014 cost $ 14 850 Depreciation April 30 2015 25% × 9 / 12 (2 784) Book value 12 066 Depreciation Dec 31 2015 25% × 8 / 12 (2 011) Book value 10 055	**4**
3(b)	Matching **(1)** – cost of non-current asset matched with the revenue earned **(1)** Prudence **(1)** – to ensure that profit/carrying value of non-current assets is not overstated. **(1)** Consistency **(1)** – to enable valid comparison **(1)** **Max 4 marks**	**4**
3(c)	**Bank loan** The lender would need to be convinced that the company can meet the interest and repayment obligations. **(1)** Bank loan must be repaid. **(1)** The loan may need to be secured **(1)** on the plant and equipment purchased. Loan interest will be charged **(1)** to the Income Statement reducing profits. A loan will increase the gearing of the company. **(1)** Takes less time to issue. **(1)** **Share issue** The company has flexibility as to the level of dividends payable on the shares. **(1)** Share capital does not need to be repaid. **(1)** There may be loss of control. **(1)** Issue of more shares may dilute the share price. **(1)** Share issue is an expensive **(1)** process. Issuing ordinary shares will not increase the gearing. **(1)** Takes more time to issue. **(1)** No interest has to be paid. **(1)** **(1 for decision, and max 4 for justification).**	**5**

© UCLES 2017

GradeMax

Question	Answer	Marks
4(a)	**Benefits (Max 2)** Calculate the break-even point Calculate margin of safety Helps with (short term) decision making Easy to predict profits and losses at different levels of output. Quick method of calculating to show impact of decision on profits. **Limitations (Max 2)** Some costs are difficult to classify as fixed or variable. Not applicable when multiple products are involved. Assumes selling price remains constant. Assumes variable/fixed costs remain constant. Based on estimates that may not be accurate. Assumes that all production is sold. **Accept other valid answers.**	**4**
4(b)	$$\begin{array}{lll} & \$ & \\ \text{Variable costs } (15 + 8 + 2) & 25 & \textbf{(1)} \\ \text{Selling price } (25 \times 1.8) & 45 & \textbf{(1)} \\ \text{Contribution per unit} & 20 & \\ \text{Fixed costs } ((17\,400 + 7800 + 12\,000 + 13\,200) / 12) & 4200 & \\ & & \\ \text{Breakeven point } (4200 / 20) & 210 \text{ units} & \textbf{(1)} \end{array}$$	**3**
4(c)(i)	In units: 240 – 210 = 30 units **(1)OF**	**2**
4(c)(ii)	In revenue: $45 × 30 = $1350 **(1)OF**	
4(d)	$$\begin{array}{llll} \text{Maximum capacity} & 240 \times 100 / 75 & 320 \text{ units} & \textbf{(1)} \\ & & \$ & \\ \text{Contribution} & 320 \times \$20 & 6400 & \textbf{(1OF)} \\ \text{Fixed costs} & & 4200 & \\ \text{Maximum profit} & & 2200 & \textbf{(1OF)} \end{array}$$	**3**

© UCLES 2017

GradeMax

Question	Answer	Marks

4(e) **8**

Sales revenue				
240 × $49.50			11 880	**(1)**
150 × $42			6 300	**(1)**
			18 180	
Variable costs				
Direct material (390 × $15)	(5 850)	**(1)**		
Direct labour (320 × $8) + (70 × $10)	(3 260)	**(1)**		
Variable overheads (390 × $2)	(780)	**(1)**	(9 890)	
Contribution			8 290	**(1of)**
Fixed costs (4200+500+200)			(4 900)	**(1)**
Maximum profit			3 390	**(1of)**

Alternative presentation

Contribution			
Existing customers	240 × (49.50 – 25.00)	5 880	**(1)**
Bart Supplies	80 **(1)** × (42 – 25) **(1)**	1 100	
	70 **(1)** × (42 – 27) **(1)**	1 710	
Total contribution		8 290	**(1)**
Fixed costs	(4200 + 500 + 200)	4 900	**(1)**
Maximum profit		3 390	**(1)**

4(f) **7**

Benefits **(maximum 4 marks)**

- Profits increase **(1)** by $2790 **(1)** (3390 – 600)
- Directors' target profit (of $40 680) **(1of)** per annum is greater than (30 000) target. **(1)**
- Business utilises full capacity **(1)** which will maximise profits. **(1)**
- Increased advertising may result in increased business **(1)** and new customers leading to growth. **(1)**
- Produces a positive contribution **(1)** $1890 **(1)**

Limitations **(maximum 4 marks)**

- Workforce working to full capacity **(1)** may affect product quality/output. **(1)**
- Existing customers may be dissatisfied with the price increase, **(1)** resulting in lost sales/lower profits **(1)**
- Additional storage rental commitment may not be required if new contract ceases, **(1)** reducing profits **(1)**
- Becoming reliant on one customer **(1)** as don't know how long the order may last **(1)**

(1) Mark for advice and overall max 6 marks for justification

© UCLES 2017

GradeMax

Question	Answer	Marks
4(g)	Facilitates profit maximisation **(1)** Enhanced cash management by identifying future inflows and outflows. **(1)** Facilitates working capital requirement planning. **(1)** Enables capital expenditure planning. **(1)** **Note** Benefits must be **financial** benefits. Do not reward: co-ordination, planning, decision making etc. unless developed from a financial perspective. **1 mark for each valid benefit. Maximum 3 marks.**	**3**

© UCLES 2017