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Cambridge Assessment International Education

Cambridge International AS & A Level

ACCOUNTING **9706/21**

Paper 2 Structured Questions **October/November 2020**

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.

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Generic Marking Principles

These general marking principles must be applied by all examiners when marking candidate answers. They should be applied alongside the specific content of the mark scheme or generic level descriptors for a question. Each question paper and mark scheme will also comply with these marking principles.

GENERIC MARKING PRINCIPLE 1:

Marks must be awarded in line with:

- the specific content of the mark scheme or the generic level descriptors for the question
- the specific skills defined in the mark scheme or in the generic level descriptors for the question
- the standard of response required by a candidate as exemplified by the standardisation scripts.

GENERIC MARKING PRINCIPLE 2:

Marks awarded are always **whole marks** (not half marks, or other fractions).

GENERIC MARKING PRINCIPLE 3:

Marks must be awarded **positively**:

- marks are awarded for correct/valid answers, as defined in the mark scheme. However, credit is given for valid answers which go beyond the scope of the syllabus and mark scheme, referring to your Team Leader as appropriate
- marks are awarded when candidates clearly demonstrate what they know and can do
- marks are not deducted for errors
- marks are not deducted for omissions
- answers should only be judged on the quality of spelling, punctuation and grammar when these features are specifically assessed by the question as indicated by the mark scheme. The meaning, however, should be unambiguous.

GENERIC MARKING PRINCIPLE 4:

Rules must be applied consistently, e.g. in situations where candidates have not followed instructions or in the application of generic level descriptors.

GENERIC MARKING PRINCIPLE 5:

Marks should be awarded using the full range of marks defined in the mark scheme for the question (however; the use of the full mark range may be limited according to the quality of the candidate responses seen).

GENERIC MARKING PRINCIPLE 6:

Marks awarded are based solely on the requirements as defined in the mark scheme. Marks should not be awarded with grade thresholds or grade descriptors in mind.

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Question	Answer	Marks
1(a)	Ismail Income statement for the year ended 31 December 2019	**15**

	$	$	
Revenue		274 500	
Cost of sales **W1**		(182 560)	**(3) OF**
Gross profit		91 940	**(1)OF**
Add discounts received		820	**(1)**
		92 760	
Less expenses			
General expenses	22 280		
Insurance **W2**	1 250		**(2) OF**
Rent	20 250		
Depreciation **W3**	3 780		**(2) OF**
Irrecoverable debt	600		**(1)**
Provision for doubtful debts **W4**	710		**(2) OF**
Loan interest **W5**	420		**(2)CF/(1)OF**
		(49 290)	
Profit for the year		43 470	**(1)OF**

W1 Cost of sales

	$	
As per draft statement	182 360	
Less goods for own use	(420)	**(1)**
Add carriage inwards	620	**(1)**
	182 560	**(1)OF**

W2 Insurance

	$	
As per draft statement	1 730	
Less prepayment (2/3 x $720)	(480)	**(1)**
	1 250	**(1)OF**

W3 Depreciation of non-current assets

	$	
At 1 January 2019	18 500	
Add capital expenditure	400	
	18 900	**(1)**

Depreciation: 20% × $18 900 = 3780 **(1)OF**

W4 Provision for doubtful debts

5% × ($14 800 – 600, i.e. $14 200 **(1)**) = 710 **(1)OF**

W5 Loan interest 4200 × 10% = 420 **(2)CF** 210 **(1)OF**

Question	Answer	Marks
1(b)		**4**

	$	
Capital 1 January 2019 (W1)	21 800	**(1)**
Add profit for year	43 470	**(1)OF**
Deduct drawings ($18 740 + $420)	(19 160)	**(1)**
	46 110	**(1)OF**

W1 Opening capital: Assets $26 000 – liability $4200 = $21 800

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Question	Answer	Marks
1(c)	Option1: Bank loan **Max 4** Reasons for: • Temporary source of finance **(1)** • No effect on control of business **(1)** • Profits will not have to be shared **(1)** Reasons against: • May not be eligible for bank loan **(1)** • Security required for loan **(1)** • Interest charges will reduce profits **(1)** Option 2: Partnership with Seema **Max 4** Reasons for: • Permanent source of capital **(1)** • Partner might bring new skills/expertise **(1)** • Sharing of workload **(1)** • Security for finance will not be required **(1)** Reasons against • Profits will have to be shared equally/so Ismail may receive less than now **(1)** • May not get on well/possibility of disputes **(1)** • Decision-making may be slower/more difficult **(1)** • Existence of business could be threatened if partner wishes to leave/retire/dies **(1)** Overall Max 6 marks for justification. Advice **(1)** **Accept other valid responses.**	**7**
1(d)	Benefits of keeping a full set of accounting records • giving access to more detailed information **(1)** • easier to assess business performance **(1)**, • possible to prepare comprehensive financial statements **(1)** • more effective decision making **(1)** • provides support for bank loan applications **(1)** • provides evidence to support tax assessments **(1)** • possibility of improved credit control **(1)** • allows comparisons with previous years/other businesses **(1)** **Max 4** **Accept other valid responses.**	**4**

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>

- Helps identify errors made by the bank **(1)**
- Helps identify errors in the cash book **(1)**
- Accurate preparation of financial statements **(1)**
- Helps prevent/identify fraud **(1)**
- Ensures cash book is up to date **(1)**
- Helps identify out of date/dishonoured cheques **(1)**

Max 4
</td><td>4</td></tr>
<tr><td>2(b)</td><td>Standing order is for a fixed amount; amount of direct debit varies (1)
Bank triggers payment of standing order; recipient triggers payment of direct debit (1)
Standing order is paid at fixed intervals; direct debit payments occur irregularly (1)

Max 2 differences
Accept other valid responses.</td><td>2</td></tr>
<tr><td>2(c)</td><td>

	$		$	
H Ltd (credit transfer)	229.48 **(1)**	Balance b/d	625.48	
Balance c/d	628.40	Bank charges	59.60	**(1)**
		Ayesha (direct debit)	172.80	**(1)**
	857.88		857.88	
		Balance b/d	628.40	**(1)OF**

</td><td>4</td></tr>
<tr><td>2(d)</td><td>

Bank Reconciliation Statement at 31 October 2019			
	$	$	
Balance per bank statement (overdrawn)		(139.39)	
Add: uncredited deposits		773.25	**(1)**
		633.86	
Less: unpresented cheques: J Ltd (cheque 626345)	(276.93)		**(1)**
Usman (cheque 626348)	(985.33)		**(1)**
		(1262.26)	
Balance per cash book **(1)**		(628.40)	**(1)**

</td><td>5</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Dividend paid

Number of shares: 1 200 000 × 4 = 4 800 000 (1)
Dividend: 4 800 000 (OF) × $0.05 = $240 000 (1)</td><td>2</td></tr>
<tr><td>3(b)</td><td>• Opportunity to purchase additional shares at a favourable price (1) as issue price is usually below market price (1)
• Can maintain same degree of control (1) in the company as shareholder will own same proportion of issued capital (1)

One benefit 1 mark + 1 mark for development
Accept other valid responses.</td><td>2</td></tr>
<tr><td>3(c)</td><td>Shares issued 2/3 × 4 800 000 (OF) = 3 200 000 shares (1)OF
Amount raised: 3 200 000 × $0.40 = $1 280 000 (1)OF</td><td>2</td></tr>
<tr><td>3(d)</td><td>M Limited
Statement of changes in equity for the year ended 31 December 2019
<table><tr><th></th><th>Share capital $000</th><th>Share Premium $000</th><th>Retained earnings $000</th><th>Total $000</th></tr><tr><td>Balances, 1 January 2019</td><td>1 200</td><td>480</td><td>295</td><td>1 975</td></tr><tr><td>Profit for year</td><td></td><td></td><td>324</td><td>324</td></tr><tr><td>Dividends paid</td><td></td><td></td><td>(240)</td><td>(240)</td></tr><tr><td>Rights issue</td><td>800</td><td>480</td><td></td><td>1 280</td></tr><tr><td>Balances, 31 December 2019</td><td>2 000</td><td>960</td><td>379</td><td>3 339</td></tr></table>(1) row
(1) row
(1)OF row
(1)OF row
(1)OF row</td><td>5</td></tr>
<tr><td>3(e)</td><td>• The amount of profit available/revenue reserves (1) must be sufficient to finance the dividends (1)
• The amount of liquid funds will be sufficient (1) to cover the dividend payment/avoid liquidity problems (1)
• That shareholders will expect/feel entitled to a dividend (1) as a reward for their investment (1)

Max 2 factors x 2 marks (1 mark + 1 mark for development)
Accept other valid responses.</td><td>4</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>

It is more time consuming to calculate the overhead absorption rate and adjust for over / under absorption. (1)
It is more complicated to calculate and managers may need training. (1)
It is irrelevant in short-term decision making as fixed costs don’t change. (1)
Fixed costs relate to a period in time and so can be misleading to charge to production units. (1)
The basis used to apportion and absorb overheads may be arbitrary. (1)

Max 2
Accept other valid responses.
</td><td>2</td></tr>
<tr><td>4(b)</td><td>
Cutting department
$\frac{\$68\,400}{24\,810}$ = $2.76 per machine hour (1)

Assembly department
$\frac{\$49\,200}{15\,820}$ = $3.11 per labour hour (1)
</td><td>2</td></tr>
<tr><td>4(c)</td><td>
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Materials</td><td>4.2 kg × $4.90</td><td>20.58</td><td>(1)</td></tr>
<tr><td>Labour</td><td>6 × $10.50</td><td>63.00</td><td>(1)</td></tr>
<tr><td>Overheads</td><td></td><td></td><td></td></tr>
<tr><td>Cutting department</td><td>2.1 machine hrs × $2.76 (OF)</td><td>5.80</td><td>(1)OF</td></tr>
<tr><td>Assembly department</td><td>2.2 labour hrs × $3.11 (OF)</td><td>6.84</td><td>(1)OF</td></tr>
<tr><td></td><td></td><td>96.22</td><td></td></tr>
<tr><td>Add profit</td><td></td><td>64.15</td><td>(1)OF</td></tr>
<tr><td>Selling price</td><td></td><td>160.37</td><td>(1)OF</td></tr>
</table>
</td><td>6</td></tr>
<tr><td>4(d)</td><td>More units were produced than forecast (1)
Actual overheads were less than forecast (1)</td><td>2</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(e)(i)</td><td>Option A (allow either approach)

<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>Selling price</td><td></td><td>52 (1)</td></tr>
<tr><td><u>Variable costs</u></td><td></td><td></td></tr>
<tr><td>Materials</td><td>10 (1)</td><td></td></tr>
<tr><td>Labour</td><td>21 (1)</td><td></td></tr>
<tr><td>Sales commission</td><td><u>2.60</u> (1) OF</td><td><u>33.60</u></td></tr>
<tr><td>Contribution per unit</td><td></td><td>18.40</td></tr>
<tr><td>Quantity</td><td></td><td><u>X 3 800</u></td></tr>
<tr><td>Total contribution</td><td></td><td>69 920</td></tr>
<tr><td>Fixed costs</td><td></td><td><u>54 000</u></td></tr>
<tr><td>Profit</td><td></td><td><u>15 920</u> (1) OF</td></tr>
</table>

<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>Selling price</td><td></td><td>197 600 (1)</td></tr>
<tr><td><u>Variable costs</u></td><td></td><td></td></tr>
<tr><td>Materials</td><td>38 000 (1)</td><td></td></tr>
<tr><td>Labour</td><td>79 800 (1)</td><td></td></tr>
<tr><td>Sales commission</td><td><u>9 880</u> (1) OF</td><td><u>127 680</u></td></tr>
<tr><td>Contribution per unit</td><td></td><td></td></tr>
<tr><td>Quantity</td><td></td><td></td></tr>
<tr><td>Total contribution</td><td></td><td>69 920</td></tr>
<tr><td>Fixed costs</td><td></td><td><u>54 000</u></td></tr>
<tr><td>Profit</td><td></td><td><u>15 920</u> (1) OF</td></tr>
</table>
</td><td>11</td></tr>
</table>

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<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(e)(ii)</td><td>Option B (allow either approach)

<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>Selling price</td><td></td><td>59 (1)</td></tr>
<tr><td><u>Variable costs</u></td><td></td><td></td></tr>
<tr><td>Materials</td><td>12 (1)</td><td></td></tr>
<tr><td>Labour</td><td><u>23.10</u> (1)</td><td><u>35.10</u></td></tr>
<tr><td>Contribution per unit</td><td></td><td>23.90</td></tr>
<tr><td>Quantity</td><td></td><td><u>X 3 040</u></td></tr>
<tr><td>Total contribution</td><td></td><td>72 656</td></tr>
<tr><td>Fixed costs</td><td></td><td><u>56 000</u> (2)CF/(1)OF</td></tr>
<tr><td>Profit</td><td></td><td><u>16 656</u> (1) OF</td></tr>
</table>

<table>
<tr><td></td><td>$</td><td>$</td></tr>
<tr><td>Selling price</td><td></td><td>179 360 (1)</td></tr>
<tr><td><u>Variable costs</u></td><td></td><td></td></tr>
<tr><td>Materials</td><td>36 480 (1)</td><td></td></tr>
<tr><td>Labour</td><td><u>70 224</u> (1)</td><td><u>106 704</u></td></tr>
<tr><td>Contribution per unit</td><td></td><td></td></tr>
<tr><td>Quantity</td><td></td><td></td></tr>
<tr><td>Total contribution</td><td></td><td>72 656</td></tr>
<tr><td>Fixed costs</td><td></td><td><u>56 000</u> (2)CF/(1)OF</td></tr>
<tr><td>Profit</td><td></td><td><u>16 656</u> (1) OF</td></tr>
</table>
</td><td></td></tr>
</table>

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Question	Answer	Marks
4(f)	Option A **Max 4** Reasons for • Will achieve target profit **(1)** • Makes full use of capacity **(1)** • Reduced price may increase sales **(1)** Possible drawbacks • Will sales commission be effective? **(1)** • Will forecast increase in demand materialise/are forecasts reliable? **(1)** • Reduced price may be perceived as reduced quality **(1)** Option B **Max 4** Reasons for • Will achieve highest profit **(1)** • Will achieve target profit **(1)** • Increased price may be perceived as increased quality **(1)** Possible drawbacks • There will be unused factory capacity/what will happen about unused labour **(1)** • Will forecast demand materialise/are forecast reliable? **(1)** • Will advertising campaign be effective? **(1)** • Increased price may reduce sales**(1)** Overall maximum 6 marks Recommendation **(1)** **Accept other valid responses.**	**7**

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