Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING **9706/22**

Paper 2 AS Level Structured Questions **March 2019**

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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This document consists of **16** printed pages.

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.

Question	Answer	Marks
1(a)	K Limited Income statement for the year ended 30 September 2018	**10**

	$000	
Revenue	936	
Cost of sales **W1**	(590)	**(1)**
Gross profit	346	**(1) OF**
Administrative expenses **(W3)**	(54)	**(2) OF**
Distribution costs **(W2)**	(55)	**(2) OF**
Profit from operations	237	**(1) OF**
Finance costs **(W4) (1*)**	(6)	**(1)**
Profit for year	231	**(1) OF**

(1*) for recording debenture interest as 'finance costs)'

W1 Cost of sales = As per trial balance $587 000 + Carriage inwards $3000 = $590 000

W2 Distribution costs

	$000	
As per trial balance	46	
Less carriage inwards	(3)	**(1)**
Depreciation	12	**(1)**
	55	

W3 Administration expenses

	$000	
As per trial balance	42	
Less insurance prepaid $\left(\frac{2}{3}\times 9\right)$	(6)	**(1)**
Depreciation $2\frac{1}{2}\% \times (980-260)$	18	**(1)**
	54	

W4 Finance costs: $(8\% \times 75)$ = 6

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Statement of changes in equity for the year ended 30 September 2018
<table>
<tr><th></th><th>Share capital
$000</th><th></th><th>Share premium
$000</th><th></th><th>Retained earnings
$000</th><th></th><th>Total
$000</th><th></th></tr>
<tr><td>Balance, 1 October 2017 (W1)</td><td>300</td><td></td><td>30</td><td></td><td>106</td><td></td><td>436</td><td>(1)</td></tr>
<tr><td>Rights issue (W1)</td><td>150</td><td>(1)</td><td>60</td><td>(1)</td><td></td><td></td><td>210</td><td></td></tr>
<tr><td>Dividends paid</td><td></td><td></td><td></td><td></td><td>(60)</td><td>(1)</td><td>(60)</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td></td><td></td><td>231</td><td>(1) OF</td><td>231</td><td></td></tr>
<tr><td>Balance, 30 September 2018</td><td>450</td><td></td><td>90</td><td></td><td>277</td><td></td><td>817</td><td>(1) OF</td></tr>
</table>

W1 Rights issue and opening balances

Rights issue: 1 for 2 leading to share capital 450: so issue was $\frac{1}{3} \times 450 = 150$

Share premium: 20 cents on each 50 cents share = $\frac{2}{5} \times 150 = 60$

Opening share capital: 450 – 150 = 300
Opening share premium: 90 – 60 = 30
</td><td>6</td></tr>
</table>

Question	Answer	Marks
1(c)	**Rights issue (Max 2)** Rights issue does not dilute ownership. **(1)** Rights issue is attractive to shareholders. **(1)** Rights issue may be less expensive than debentures. **(1)** However, there has been a recent rights issue. Shareholders may not want another one. **(1)** May result in a fall in the share price. **(1)** Payment of dividends is discretionary. **(1)** **Debentures (Max 2)** Debentures increase debt. **(1)** Lender may require security. **(1)** Regular payment of interest and capital. **(1)** Debentures need to be repaid. **(1)** However, debentures do not affect ownership. **(1)** No voting rights to debenture holders. **(1)** **Accept other valid points.** **1** mark for decision + **Max 4** marks for justification	**5**
1(d)	Effect on liquidity Both changes will have an adverse effect on liquidity **(1)** Suppliers accounts are now being settled more quickly than customers pay their accounts. **(1)** Both ratios are now <u>worse</u> than industry average. **(1)** **Accept other valid points.** **Max 3 marks**	**3**

Question	Answer	Marks
1(e)	Put in place measures to more closely monitor trade receivable accounts (frequent reminders; issuing of statements of account). **(1)** Refuse credit terms to late payers. **(1)** Offer cash discounts to encourage prompt payment. **(1)** Charge interest on overdue accounts **(1)** Ask for cash with order / increase cash sales **(1)** **Accept other valid points.** **Max 3 marks**	**3**
1(f)	Delaying payments to suppliers may mean the loss of cash discounts which would have an impact on profits. **(1)** Cause some suppliers to refuse credit terms which would have an adverse effect on liquidity. **(1)** Force the business to find alternative suppliers who are unable to supply goods on the same quality. **(1)** May create a bad relationship with suppliers. **(1)** May incur interest charges **(1)** **Accept other valid points.** **Max 3 marks**	**3**

Question	Answer	Marks
2(a)	Death / ill health / retirement of a partner (any one) **(1)** A partner has been declared bankrupt **(1)** Disagreement between partners **(1)** Insufficient level of profits / incurring losses **(1)** Insufficient levels of cash reserves **(1)** Partnership has achieved its purpose **(1)** **Accept other valid points.** **Max 4 marks**	**4**

Question	Answer	Marks
2(b)	Mira, Sasha and Peta Realisation account	5

	$			$	
Fixtures and fittings	45 200	**(1)**	Capital account - Sasha	4 500	**(1)**
Motor vehicles	22 000		Trade payables	26 400	**(1)**
Inventory	20 600		Bank – non-current assets	64 300	
Trade receivables	42 800		Bank – inventory	19 800	
Bank – trade payables	26 000		Bank – trade receivables	40 500	
Bank – Dissolution costs	3 700	**(1)**	Capital account Mira $\frac{2}{5}$	1 920	**(1) OF**
			Sasha $\frac{2}{5}$	1 920	
			Peta $\frac{1}{5}$	960	
	160 300			160 300	

Question	Answer	Marks
2(c)	Mira, Sasha and Peta Capital accounts	**2**

Details	Mira	Sasha	Peta		Details	Mira	Sasha	Peta
	$	$	$			$	$	$
Realisation account		4 500		**(1)**	Balance b/d	45 500	42 800	14 000
Realisation account	1 920	1 920	960	**(1) OF**				
Bank	43 580	36 380	13 040					
	45 500	42 800	14 000			45 500	42 800	14 000

Question	Answer	Marks
2(d)	Mira, Sasha and Peta Bank account	**2**

	$		$	
Realisation account	64 300	Balance b/d	1 900	**(1)**
Realisation account	19 800	Realisation account	26 000	
Realisation account	40 500	Realisation account	3 700	
		Capital account Mira	43 580	**(1) OF**
		Sasha	36 380	
		Peta	13 040	
	124 600		124 600	

Question	Answer	Marks
2(e)	Credit control was not up-to-date. **(1)** There were uncorrected errors in the receivables ledger overstating certain accounts. **(1)** Becoming aware that the partnership was ceasing, certain receivables avoided paying. **(1)** Customer bankrupt **(1)** May have been some irrecoverable debts **(1)** Offered cash discount **(1)** **Accept other valid points.** **Max 2**	**2**

Question	Answer	Marks
3(a)(i)	General expenses $ Opening balance prepaid 480 **(1)** Payment 12 400 Closing balance due 1 210 **(1)** 14 090 **(1) OF**	**3**
3(a)(ii)	Insurance $ Premiums paid 6 480 Less prepayment $\frac{1}{6} \times \$630$ (105) 6 375 **(1)**	**1**
3(a)(iii)	Rent receivable $ Rent received 5 460 Add amount due $\frac{1}{3} \times \$1200$ 400 5 860 **(1)**	**1**
3(a)(iv)	Closing inventory at 31 December 2018 $ Valuation at cost 11 400 Valuation of damaged products Cost $\$840 \times \frac{2}{3} = 560$ **(1)** NRV \$840 – \$360 = 480 **(1)** Reduction in value (80) Closing valuation 11 320 **(1) OF**	**3**
3(b)	Accounting concepts: accruals (matching) **(1)**; prudence **(1)**	**2**

Question	Answer	Marks
3(c)	The original provision for doubtful debts was: $\frac{5}{95}$ × \$34 200 = \$1800 **(1)** The new provision for doubtful debts will be: \$ Total balances of trade receivables at 31 December 2018 37 200 Less irrecoverable debts (\$680 + \$360) 1 040 Net 36 160 **(1)** New provision for doubtful debts (5% × \$36 160) 1 808 **(1) OF** Entry in income statement will be for an increase **(1) OF** \$8 **(1) OF**	**5**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>
<table>
<tr><td></td><td>Product A
$</td><td></td><td>Product B
$</td><td></td><td>Total
$</td><td></td></tr>
<tr><td>revenue</td><td>600 000</td><td>(1)</td><td>480 000</td><td>(1)</td><td>1 080 000</td><td></td></tr>
<tr><td>direct materials</td><td>140 000</td><td></td><td>96 000</td><td></td><td>236 000</td><td></td></tr>
<tr><td>direct labour</td><td>150 000</td><td></td><td>126 000</td><td></td><td>276 000</td><td></td></tr>
<tr><td>variable overheads</td><td>100 000</td><td></td><td>90 000</td><td></td><td>190 000</td><td></td></tr>
<tr><td>total contribution</td><td>210 000</td><td>(1)</td><td>168 000</td><td>(1)</td><td>378 000</td><td></td></tr>
<tr><td>fixed costs</td><td>130 000</td><td></td><td>120 000</td><td>(1) both</td><td>250 000</td><td></td></tr>
<tr><td>budgeted profit</td><td>80 000</td><td>(1) OF</td><td>48 000</td><td>(1) OF</td><td>128 000</td><td>(1) OF</td></tr>
</table>
OR
<table>
<tr><td></td><td>Product A</td><td></td><td>Product B</td><td></td><td>Total</td><td></td></tr>
<tr><td>unit contribution</td><td>$21</td><td>(1)</td><td>$28</td><td>(1)</td><td></td><td></td></tr>
<tr><td>no of units</td><td>× 10 000</td><td></td><td>× 6 000</td><td></td><td></td><td></td></tr>
<tr><td>total contribution</td><td>$210 000</td><td>(1)</td><td>$168 000</td><td>(1)</td><td>$378 000</td><td></td></tr>
<tr><td>fixed costs</td><td>$130 000</td><td></td><td>$120 000</td><td>(1) both</td><td>$250 000</td><td></td></tr>
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</table>
</td><td>8</td></tr>
<tr><td>4(b)</td><td>
<table>
<tr><th></th><th>Product A
$</th><th>Product B
$</th><th>Total
$</th></tr>
<tr><td>Revised unit contribution</td><td>21 – 4 = 17 (1) OF</td><td>28 – 4 = 24 (1) OF</td><td></td></tr>
<tr><td>Revised fixed costs, total for the year</td><td>130 000 – 75 000 (1) + 21 000 (1) = 76 000</td><td>120 000 – 25 000 (1) + 7 000 (1) = 102 000</td><td></td></tr>
<tr><td>Revised budgeted profit for the year</td><td>(17 × 10 000) – 76 000 = 94 000 (1) OF</td><td>(24 × 6 000) – 102 000 = 42 000 (1) OF</td><td>136 000 (1) OF</td></tr>
</table>
</td><td>9</td></tr>
</table>

Question	Answer	Marks
4(c)	**Financial factors: Max 3** If the production level is as budgeted, machine rental is ($8000) lower / profit is ($8000) more with the new agreement. **(1)** Fixed costs will reduce by $72 000 **(1)** If the production level is below budget, the saving is greater with the new agreement. Therefore, the new agreement reduces risk. **(1)** Even if production levels rise and increase the total cost, unit contribution is still positive. **(1)** If production levels rise, machine rental will become higher than before under the new agreement. **(1)** The removal of the old machinery and installation of the new may incur additional costs. **(1)** There could be costs of staff training with the new machinery. **(1)** **Non-financial factors: Max 3** The new agreement could mean new machinery which is more up-to-date / reliable / economical to run. **(1)** The removal of the old machinery and installation of the new would be very disruptive . **(1)** There could be teething problems with the new machinery. **(1)** There would be a learning curve. **(1)** Will new machinery produce equivalent quality The new machinery has unknown reliability/availability of spare parts. **(1)** **Accept other valid points.** **Overall max 6 for justification + (1) for decision**	7

Question	Answer	Marks
4(d)	The business can calculate contribution per unit of scarce resource. **(1)** Thus, it can rank its products **(1)** and prepare a production schedule **(1)** to maximise profit **(1)** by prioritising products with the highest contribution per unit of scarce resource. (**1)** **Max 4**	**4**
4(e)	Make or buy decisions **(1)** Accepting orders at below normal selling price **(1)** Closing department / discontinuing product **(1)** **Accept other valid points.** **Max 2**	**2**