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**ACCOUNTING**

9706/22

Paper 2 Structured Questions

May/June 2018

MARK SCHEME

Maximum Mark: 90

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**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 May/June 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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This document consists of **12** printed pages.

**PUBLISHED****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)	<p>Responses could include:</p> <p>Profits will be shared in the partnership <b>(1)</b>, whereas sole traders would be entitled to all the profits <b>(1)</b>.  Decision making may take longer as both partners will need to agree <b>(1)</b>, whereas sole traders can make instant decisions <b>(1)</b>.  There is the risk of disagreement/conflict between partners <b>(1)</b>, whereas sole traders would make decisions on their own <b>(1)</b>.  Each partner's actions are binding on all partners <b>(1)</b>, whereas a sole trader has to account to no other parties for his actions <b>(1)</b>.  Control of the business by each partner maybe difficult <b>(1)</b> whereas the sole trader retains control over the business <b>(1)</b>.</p> <p><b>1 mark for identification + 1 mark for development. Max 3 advantages.</b></p>	<b>6</b>																																								
1(b)	<p style="text-align: center;">Cherie and Harry Income statement for the year ended 30 June 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 15%; text-align: right;">\$</td> <td style="width: 15%; text-align: right;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>Gross profit</td> <td></td> <td style="text-align: right;">40 960</td> <td></td> </tr> <tr> <td>Less inventory adjustment</td> <td></td> <td style="text-align: right;"><u>(380)</u></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td>Revised gross profit</td> <td></td> <td style="text-align: right;">40 580</td> <td></td> </tr> <tr> <td>Less</td> <td></td> <td></td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Operating expenses <b>W1</b></td> <td style="text-align: right;">26 090</td> <td></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td style="padding-left: 20px;">Depreciation <b>W2</b></td> <td style="text-align: right;">8 400</td> <td></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td style="padding-left: 20px;">Loan interest <b>W3</b></td> <td style="text-align: right;"><u>640</u></td> <td></td> <td style="text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><u>(35 130)</u></td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Profit for the year</td> <td></td> <td style="text-align: right;"><u>5 450</u></td> <td style="text-align: right;"><b>(1) OF</b></td> </tr> </table> <p><b>W1</b> Operating expenses: <math>\\$28\,390 - \text{prepayment } (2/3 \times \\$3450) = \\$26\,090</math>  <b>W2</b> Depreciation: <math>20\% \times (\\$64\,000 - \\$22\,000) = \\$8400</math>  <b>W3</b> Loan interest: <math>8\% \times \\$8000 = \\$640</math></p> <p><b>Marks are for figures and position.</b></p>		\$	\$		Gross profit		40 960		Less inventory adjustment		<u>(380)</u>	<b>(1)</b>	Revised gross profit		40 580		Less				Operating expenses <b>W1</b>	26 090		<b>(1)</b>	Depreciation <b>W2</b>	8 400		<b>(1)</b>	Loan interest <b>W3</b>	<u>640</u>		<b>(1)</b>			<u>(35 130)</u>		Profit for the year		<u>5 450</u>	<b>(1) OF</b>	<b>5</b>
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1(c)	<p style="text-align: center;">Cherie and Harry</p> <p style="text-align: center;">Appropriation Account for the year ended 30 June 2017</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"></td> <td style="width: 20%; text-align: center;">\$</td> <td style="width: 20%;"></td> <td style="width: 20%; text-align: center;">\$</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right;">5 450</td> </tr> <tr> <td>Add interest on drawings</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cherie</td> <td style="text-align: right;">310</td> <td></td> <td></td> </tr> <tr> <td>Harry</td> <td style="text-align: right;"><u>240</u></td> <td style="text-align: right;"><b>(1) for both</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>550</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">6 000</td> </tr> <tr> <td>Less interest on capital</td> <td></td> <td></td> <td></td> </tr> <tr> <td><b>W1</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cherie</td> <td style="text-align: right;">(4 200)</td> <td></td> <td></td> </tr> <tr> <td>Harry</td> <td style="text-align: right;"><u>(2 800)</u></td> <td style="text-align: right;"><b>(1) for both</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>(7 000)</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>(1 000)</u></td> </tr> <tr> <td>Share of loss <b>W2</b></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Cherie</td> <td style="text-align: right;">(600)</td> <td style="text-align: right;"><b>(2)OF /</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;"><b>(1)OF</b></td> <td></td> </tr> <tr> <td>Harry</td> <td style="text-align: right;"><u>(400)</u></td> <td style="text-align: right;"><b>for both</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>(1 000)</u></td> </tr> </table> <p><b>W1</b> Interest on capitals:  Cherie <math>10\% \times \\$42\,000 = \\$4\,200</math>  Harry <math>10\% \times \\$28\,000 = \\$2\,800</math></p> <p><b>W2</b> Shares of residual loss: ratio is Cherie:  Harry <math>\\$42\,000 : \\$28\,000</math>, i.e. 3 : 2</p> <p>Cherie <math>\frac{3}{5} \times \\$1\,000 = \\$600</math></p> <p>Harry <math>\frac{2}{5} \times \\$1\,000 = \\$400</math></p>		\$		\$	Profit for the year			5 450	Add interest on drawings				Cherie	310			Harry	<u>240</u>	<b>(1) for both</b>					<u>550</u>				6 000	Less interest on capital				<b>W1</b>				Cherie	(4 200)			Harry	<u>(2 800)</u>	<b>(1) for both</b>					<u>(7 000)</u>				<u>(1 000)</u>	Share of loss <b>W2</b>				Cherie	(600)	<b>(2)OF /</b>				<b>(1)OF</b>		Harry	<u>(400)</u>	<b>for both</b>					<u>(1 000)</u>	<b>4</b>
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1(e)	<p><b>Non-current asset turnover</b> The non-current asset turnover ratio has improved from being weaker than the industry average to being better than the industry average <b>and/or</b> has also improved on the previous year <b>(1)</b>. The partnership may have purchased new and improved non-current assets <b>and/or</b> are using existing non-current assets more efficiently. <b>(1)</b></p> <p><b>Trade payables turnover</b> The partnership is now paying suppliers faster than in the previous year <b>and/or</b> quicker than the industry average <b>(1)</b> Whilst this may have been good for the supplier liquid funds that could have been used for other purposes are being used unnecessarily. <b>(1)</b></p> <p><b>Accept other valid responses. Max 2 marks for each ratio.</b></p>						<b>4</b>																																																															

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1(f)	<p>Responses could include:</p> <p><b>Advertising campaign</b>            May raise public perception (1)            May increase sales of the business (1)            Would incur costs (1)</p> <p><b>Reducing inventory levels</b>            Would lead to an increase in the rate of inventory turnover (1)            Would reduce the risk of obsolete/damaged inventory (1)            Would reduce customer choice/danger of not being able to fulfil orders (1)</p> <p><b>Award up to 2 marks for justification on each course of action and 1 mark for a decision.</b></p> <p><b>Accept other valid responses.</b></p>	<b>5</b>

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2(a)	<p style="text-align: center;">M Limited</p> <p style="text-align: center;">Statement of changes in equity for the year ended 31 August 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%;"></th> <th style="width: 15%; text-align: center;">Ordinary share capital</th> <th style="width: 15%; text-align: center;">Share premium</th> <th style="width: 15%; text-align: center;">Revaluation reserve</th> <th style="width: 25%; text-align: center;">Retained earnings</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Balance at 1 September 2016</td> <td style="text-align: right;">200 000</td> <td style="text-align: right;">80 000</td> <td style="text-align: right;">40 000</td> <td style="text-align: right;">37 500</td> </tr> <tr> <td>Rights issue</td> <td style="text-align: right;">80 000 (1)</td> <td style="text-align: right;">48 000</td> <td style="text-align: right;">(1)</td> <td></td> </tr> <tr> <td>Interim dividend paid</td> <td></td> <td></td> <td></td> <td style="text-align: right;">(44 800) (1) <b>OF for row</b></td> </tr> <tr> <td>Revaluation</td> <td></td> <td></td> <td style="text-align: right;">(40 000) (1)</td> <td style="text-align: right;">(8 000) (1)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td></td> <td style="text-align: right;">22 500 (1)</td> </tr> <tr> <td>Balance at 31 August 2017</td> <td style="text-align: right; border-top: 1px solid black;">280 000</td> <td style="text-align: right; border-top: 1px solid black;">128 000</td> <td style="text-align: right; border-top: 1px solid black;">–</td> <td style="text-align: right; border-top: 1px solid black;">7 200</td> </tr> </tbody> </table>		Ordinary share capital	Share premium	Revaluation reserve	Retained earnings		\$	\$	\$	\$	Balance at 1 September 2016	200 000	80 000	40 000	37 500	Rights issue	80 000 (1)	48 000	(1)		Interim dividend paid				(44 800) (1) <b>OF for row</b>	Revaluation			(40 000) (1)	(8 000) (1)	Profit for the year				22 500 (1)	Balance at 31 August 2017	280 000	128 000	–	7 200	<b>6</b>
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<b>Question</b>	<b>Answer</b>	<b>Marks</b>
2(b)	Responses could include:  To retain reserves in the most distributable or flexible form (1) Revenue reserves are needed to fund the payment of dividends (1)	<b>2</b>
2(c)(i)	Quicker and cheaper than a new share issue (1) More likely to be fully subscribed than a new share issue (1) Results in a cash inflow (1) Does not have to be repaid (1) Would avoid any dilution of ownership (1)  <b>Max 2</b> <b>Accept other valid points.</b>	<b>2</b>
2(c)(ii)	Can lead to a fall in the share price (1) <b>Accept other valid points.</b>	<b>1</b>
2(d)	<b>Long-term bank loan</b> Interest on loan is fixed (1) whereas dividends are discretionary (1) Ownership remains the same therefore (1) No loss of control to existing shareholders (1) Funds received quicker (1) than a share issue (1) Repayments are fixed (1) enabling future planning (1)  <b>1 mark for identification + 1 mark for development</b> <b>Accept other valid responses</b>	<b>4</b>



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3(a)(i)	<p style="text-align: center;">Plant and machinery at cost</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">\$</td> <td></td> <td style="text-align: center;">\$</td> </tr> <tr> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">195 000</td> <td style="text-align: right;">Disposal</td> <td style="text-align: right;">35 000 (1)</td> </tr> <tr> <td style="text-align: right;">Bank</td> <td style="text-align: right;"><u>42 000</u> (1)</td> <td style="text-align: right;">Balance c/d</td> <td style="text-align: right;"><u>202 000</u></td> </tr> <tr> <td></td> <td style="text-align: right;"><u>237 000</u></td> <td></td> <td style="text-align: right;"><u>237 000</u></td> </tr> <tr> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">202 000 (1)OF</td> <td></td> <td></td> </tr> </table>		\$		\$	Balance b/d	195 000	Disposal	35 000 (1)	Bank	<u>42 000</u> (1)	Balance c/d	<u>202 000</u>		<u>237 000</u>		<u>237 000</u>	Balance b/d	202 000 (1)OF			<b>3</b>
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3(a)(ii)	<p style="text-align: center;">Provision for depreciation on plant and machinery</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td> <td style="text-align: center;">\$</td> <td></td> <td style="text-align: center;">\$</td> </tr> <tr> <td style="text-align: right;">Disposal</td> <td style="text-align: right;">7 000 (1)</td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">68 250</td> </tr> <tr> <td style="text-align: right;">Balance c/d</td> <td style="text-align: right;"><u>89 400</u></td> <td style="text-align: right;">Income statement</td> <td style="text-align: right;"><u>28 150</u> (1)OF</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>96 400</u></td> <td></td> <td style="text-align: right;"><u>96 400</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">89 400 (1)OF</td> </tr> </table>		\$		\$	Disposal	7 000 (1)	Balance b/d	68 250	Balance c/d	<u>89 400</u>	Income statement	<u>28 150</u> (1)OF		<u>96 400</u>		<u>96 400</u>			Balance b/d	89 400 (1)OF	<b>3</b>
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3(b)	<p>Responses could include:</p> <p>Plant and machinery often loses more value in the earlier years of its life (1) due to usage (1) and maintenance costs may be higher in the later years (1)</p>	<b>3</b>																				
3(c)	<p>It is written off as an expense (1) If the cost of the item is not material (1)</p> <p>The revaluation method should be used (1) If the cost is significant (1)</p>	<b>4</b>																				
3(d)	<p>Prudence (1) Not over-state the value of non-current assets or profit (1)</p> <p><b>or</b></p> <p>Consistency (1) Using the same depreciation method each year to assist comparisons (1)</p> <p><b>or</b></p> <p>Accruals/matching (1) To match the cost with the income earned by the asset (1)</p>	<b>2</b>																				

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Question	Answer					Marks
4(a)	Total	Accommodation	Leisure	Conferences	Support	<b>8</b>
	\$	\$	\$	\$	\$	
	Labour cost	345 000	194 000	86 000	60 000	5000
	Food & materials	81 000	42 000	11 000	26 000	2000
	Rent and rates	86 000	53 750	8600	21 500	2150 <b>(1) row</b>
	Light and heat	48 000	22 400	12 800	9600	3200 <b>(1) row</b>
	Advertising	40 000	24 000	6000	10 000	– <b>(1) row</b>
	Equipment depreciation	60 000	10 000	45 000	5000	– <b>(1) row</b>
	Office costs	<u>150 000</u>	<u>90 000</u>	<u>22 500</u>	<u>37 500</u>	– <b>(1) row</b>
	Total apportioned overheads	<u>810 000</u>	436 150	191 900	169 600	12 350 <b>(1)OF row</b>
	Reapportionment of Support		7410	1852	3088	(12 350) <b>(1)OF row</b>
	Total		<u>443 560</u>	<u>193 752</u>	<u>172 688</u>	– <b>(1)OF row</b>
4(b)		Accommodation	Leisure	Conferences		<b>3</b>
		\$	\$	\$		
	Total overheads		443 560	193 752	172 688	
	Budgeted guest days		12 000	3 000	5 000	
	Overhead absorption rate per guest day		\$36.96	\$64.58	\$34.54	
			<b>(1) OF</b>	<b>(1) OF</b>	<b>(1) OF</b>	
4(c)		Accommodation	Leisure	Conferences		<b>6</b>
		\$	\$	\$		
	Actual costs	522 000	215 000	196 000		
	Absorbed					
	Accommodation (36.96 × 13 200)	487 872				
	Leisure (64.58 × 3 600)		232 488			
	Conferences (34.54 × 5 800)			200 332		
	Under/over absorbed	34 128 <b>(1)OF</b>	17 488 <b>(1)OF</b>	4 332 <b>(1)OF</b>		
		Under <b>(1)OF</b>	Over <b>(1)OF</b>	Over <b>(1)OF</b>		

Question	Answer	Marks																																																																																																		
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4(e)	<p>Responses could include:</p> <p>Price will still be lower than competitor <b>(1)OF</b> which will result in increased profits <b>(1)OF</b></p> <p>Increased accommodation prices may reduce the demand for Leisure and Conferences <b>(1)</b> and may affect overall occupancy rates <b>(1)</b></p> <p>May affect the reputation of the hotel and leisure complex <b>(1)</b> resulting in lost customers <b>(1)</b></p> <p><b>Decision (1) plus 1 mark for identification plus 1 mark for development</b></p>	<b>5</b>																																																																																																		

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<b>Question</b>	<b>Answer</b>	<b>Marks</b>
4(f)	Enables <b>planning</b> for the future (1) Encourages <b>co-ordination/communication</b> (1) Provides a framework for <b>responsibility accounting</b> (1) Enables <b>variance analysis</b> ensuring control (1) Encourages <b>motivation</b> of employees (1)  <b>Max 2 marks</b> <b>Accept other valid points.</b>	<b>2</b>
4(g)	Based on estimates (1) Unrealistic budgets may de-motivate employees (1) May discourage innovation (1)  <b>Max 2 marks</b> <b>Accept other valid points.</b>	<b>2</b>