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

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Cambridge Assessment International Education

[Turn over

Question	Answer	Marks
1	Ross Income Statement for the year ended 31 March 2017	13

	$		$	
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)**)

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Ross
Statement of Financial position at 31 March 2017
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td colspan="2">Non-current assets</td><td></td><td></td></tr>
<tr><td>Shop fittings –</td><td>cost</td><td>11 930</td><td></td></tr>
<tr><td></td><td>provision for depreciation</td><td>3 320</td><td>(1)</td></tr>
<tr><td></td><td></td><td>8 610</td><td>(1of)</td></tr>
<tr><td colspan="2">Current assets</td><td></td><td></td></tr>
<tr><td colspan="2">Inventory</td><td>25 900</td><td>(1of)</td></tr>
<tr><td colspan="2">Trade receivables</td><td>11 620</td><td>(2of)</td></tr>
<tr><td colspan="2">Prepayments</td><td>3 240</td><td>(1)</td></tr>
<tr><td colspan="2">Bank</td><td>390</td><td>(1)</td></tr>
<tr><td colspan="2"></td><td>41 150</td><td></td></tr>
<tr><td colspan="2">Total assets</td><td>49 760</td><td></td></tr>
<tr><td colspan="2">Capital account</td><td></td><td></td></tr>
<tr><td colspan="2">Balance brought forward</td><td>10 950</td><td>(1)</td></tr>
<tr><td colspan="2">Capital introduced</td><td>3 000</td><td>(1)</td></tr>
<tr><td colspan="2">Profit for the year</td><td>28 590</td><td>(1of)</td></tr>
<tr><td colspan="2"></td><td>42 540</td><td></td></tr>
<tr><td colspan="2">Deduct: drawings</td><td>8 600</td><td>(1)</td></tr>
<tr><td colspan="2"></td><td>33 940</td><td></td></tr>
<tr><td colspan="2">Non-current liabilities</td><td></td><td></td></tr>
<tr><td colspan="2">Bank loan</td><td>4 290</td><td>(1)</td></tr>
<tr><td colspan="2">Current liabilities</td><td></td><td></td></tr>
<tr><td colspan="2">Trade payables</td><td>6 440</td><td></td></tr>
<tr><td colspan="2">Accruals</td><td>800</td><td>(1)</td></tr>
<tr><td colspan="2">Bank loan</td><td>4 290</td><td></td></tr>
<tr><td colspan="2"></td><td>49 760</td><td></td></tr>
</table>
Workings

Trade receivables 12 870 (1) – 1250 = 11 620 (1)OF
</td><td>13</td></tr>
<tr><td>1(c)</td><td>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).</td><td>4</td></tr>
</table>

Question	Answer	Marks
2(a)	Sales ledger control account	11

Description	Add ($)		Less ($)		Total ($)	
Opening balance					93 185	
Sales journal			30 420	**(1)**		
Interest on late payment	720	**(1)**				
Sales returns journal	4 560	**(1)**				
Discount allowed			1 520	**(1)**		
Bank receipts	18 965	**(1)**				
Closing balance					85 490	**(1cf)**

Sales ledger balances

Description	Add ($)		Less ($)		Total ($)	
Opening balance					78 370	
Dishonoured cheque	9 745	**(1)**				
Interest on late payment	720	**(1)**				
Discount allowed			1 520	**(1)**		
Irrecoverable debt w/off			1 825	**(1)**		
Closing balance					85 490*	**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.

Question	Answer	Marks
2(b)	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).**	4

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)(i)</td><td>84 695 × 20% = $16 939 (1)
New equipment 12 785 + 1595 = 14 380 × 20% × 3 / 12 = 719
Total depreciation = 16 939 + 719(1) = $17 658</td><td>2</td></tr>
<tr><td>3(a)(ii)</td><td>K Limited
Motor vehicle disposal account
<table>
<tr><td></td><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>2016
Dec
31</td><td>Motor
vehicles cost</td><td>14 850
(1)</td><td>2016
Dec
31</td><td>Provision for depreciation
of motor vehicles</td><td>4 795</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Bank</td><td>8 900</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Apr 30</td><td>Income statement</td><td>1 155</td><td>(1of)</td></tr>
<tr><td></td><td></td><td>14 850</td><td></td><td></td><td>14 850</td><td></td></tr>
</table>
Workings
<table>
<tr><td>Motor vehicle sold</td><td></td><td>$</td></tr>
<tr><td>Bought Aug 1 2014 cost</td><td></td><td>14 850</td></tr>
<tr><td>Depreciation April 30 2015</td><td>25% × 9 / 12</td><td>(2 784)</td></tr>
<tr><td></td><td>Book value</td><td>12 066</td></tr>
<tr><td>Depreciation Dec 31 2015</td><td>25% × 8 / 12</td><td>(2 011)</td></tr>
<tr><td></td><td>Book value</td><td>10 055</td></tr>
</table></td><td>4</td></tr>
<tr><td>3(b)</td><td>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</td><td>4</td></tr>
<tr><td>3(c)</td><td>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).</td><td>5</td></tr>
</table>

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)	\$ Variable costs (15 + 8 + 2) 25 **(1)** Selling price (25 × 1.8) 45 **(1)** Contribution per unit 20 Fixed costs ((17 400 + 7800 + 12 000 + 13 200) / 12) 4200 Breakeven point (4200 / 20) 210 units **(1)**	**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)	Maximum capacity 240 × 100 / 75 320 units **(1)** \$ Contribution 320 × \$20 6400 **(1OF)** Fixed costs 4200 Maximum profit 2200 **(1OF)**	**3**

Question	Answer	Marks
4(e)	(see tables below)	**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)**

Question	Answer	Marks
4(f)	Benefits **(maximum 4 marks)**	**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

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**