Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING **9706/22**

Paper 2 Structured Questions **May/June 2017**

MARK SCHEME

Maximum Mark: 90

Published

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Mark schemes should be read in conjunction with the question paper and the Principal Examiner Report for Teachers.

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This document consists of **9** printed pages.

Question	Answer						Marks
1(a)			$		$		**17**
	Revenue				563 800		
	Cost of sales						
	Opening inventory		62 400				
	Purchases		268 200				
			330 600				
	Closing inventory		70 300		260 300	**(1)**	
	Gross profit				303 500	**(1)OF**	
	Deduct: expenses						
	Directors remuneration		53 200	**(1)**			
	Office costs	W1	41 070	**(4)**			
	Property costs	W2	22 000	**(3)**			
	Selling and distribution costs	W3	73 500	**(4)**	189 770		
	Profit from operations				113 730	**(1)OF**	
	Finance costs				5 920	**(1)**	
	Profit for the year				107 810	**1OF**	
	Workings						
	W1 Office costs	$18 330 + $1920 **(1)** + $19 400 **(1)** + $1420 **(1)** = $41 070 **(1)OF**					
	W2 Property costs	$21 940 + $1300 **(1)** – $1240 **(1)** = $22 000 **(1)OF**					
	W3 Selling and distribution costs	$36 120 + $5600 **(1)** + $29 100 **(1)** + $2680 **(1)** = $73 500 **(1)OF**					
	Depreciation Buildings	$65 000 · 2% = $1300					
	Depreciation Fixtures & Fittings	($18 110 – $5310) · 15% = $1920					
	Depreciation Motor vehicles	($41 600 – $19 200) · 25% = $5600					

Question	Answer	Marks
1(b)	$ Current assets Inventory 70 300 Trade and other receivables W1 70 820 **(2)** Cash and cash equivalents W2 10 210 **(2)** Total 151 330 **Workings** W1 Trade and other receivables $71 000 – $1420 **(1)** + $1240 **(1)** = $70 820 W2 Cash and cash equivalents $14 040 + $26 400 **(1)** – $50 000 **(1)** + $650 = $10 210 Award 1 mark for presentation / labels	**5**
1(c)	Allowing for depreciation: To comply with the matching / accruals concept **(1)** Accounts for that part of the asset used up in the accounting period **(1)** The value of assets falls due to wear and tear, obsolescence, technological change, etc. **(1)** Avoids overstating the net assets / non-current assets of the business **(1)** Ensures that the statement of financial position shows a true and fair view **(1)** **Max 4**	**4**
1(d)	Differences: Ordinary shares carry voting rights **(1)**, preference shares do not carry voting rights **(1)** Ordinary shareholders receive a variable dividend **(1)**, preference shareholders receive a fixed rate of dividend **(1)** Ordinary share dividends are discretionary **(1)**, preference share dividend is mandatory if sufficient profits are available **(1)** Preference shareholders receive dividend before **(1)** ordinary shareholders **(1)** In the event of liquidation preference shareholders are repaid their capital before **(1)** ordinary shareholders **(1)** **Max 4**	**4**

Question	Answer	Marks
2(a)	Uses historical information. **(1)** Does not take seasonality into account **(1)** May use subjective data **(1)** Based on purely quantitative information **(1)** Does not explain the cause **(1)** Does not take inflation into account **(1)** **1 mark for each valid point to a mx of 2 marks**	**2**
2(b)	Current assets: 152 000 + 31 275 + 1725 / 129 000* + 19 000 = 185 000 **(1)** Current liabilities: (54.75 / 365 × 860 000 = 129 000) **(1)** + $19 000 = 148 000 **(1)OF** Current ratio: 185 000 / 148 000 = 1.25:1 **(1)OF**	**4**
2(c)	(185 000 – 152 000) / 148 000 = 0.22 : 1 **(1)OF**	**1**
2(d)	Opening inventory: 1042 500 x 80% = 834 000 **(1)** – 860 000 +152 000 = 126 000 **(1)OF** Average inventory: (126 000 + 152 000) / 2 = 139 000 **(1)OF** Rate on inventory turnover: 6 (times) **(1)OF**	**4**

Question	Answer	Marks
2(e)	Wiggins cannot pay debts from short term assets without relying on inventory because the liquid (acid test) ratio is significantly below 1 : 1 (0.22 : 1) **(1)** **For (Max 2)** A long term loan will allow Wiggins to plan repayments over five years **(1)** Enables Wiggins to repay the bank overdraft **(1)** Loan is cheaper than bank overdraft **(1)** **Against (Max 2)** Wiggins already has a bank overdraft of $19 000 **(1)** Wiggins may be charged a higher interest rate on loan **(1)** Bank loan will increase its gearing ratio **(1)** Bank may require security for a loan **(1)** **1 mark decision** **Overall max 3 marks justification**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>3(a)</td><td>Share profits and losses equally **(1)**
Partners are not entitled to salaries **(1)**
Partners are not charged interest on their drawings **(1)**
Entitled to contribute equally to the capital of the partnership **(1)**
Partners are not entitled to interest on the capital they have contributed **(1)**
Partners are entitled to interest at 5% per annum on loans they make to the partnership **(1)**

Max 4</td><td>**4**</td></tr>
<tr><td>3(b)</td><td>
<table>
<tr><td></td><td>Amit</td><td>Wang</td><td>Susi</td><td></td><td>Amit</td><td>Wang</td><td>Susi</td></tr>
<tr><td></td><td>$</td><td>$</td><td>$</td><td></td><td>$</td><td>$</td><td>$</td></tr>
<tr><td>Goodwill</td><td></td><td>21 000</td><td>21 000</td><td>Balance b/d</td><td>40 000</td><td>40 000</td><td>40 000</td></tr>
<tr><td>Loan</td><td>69 100 **(1)OF**</td><td></td><td></td><td>Goodwill</td><td>14 000</td><td>14 000</td><td>14 000 **(1)***</td></tr>
<tr><td>Bank</td><td>15 000 **(1)**</td><td></td><td></td><td>Current</td><td>27 600 **(1)**</td><td></td><td></td></tr>
<tr><td>Balance c/d</td><td>______</td><td>35 500</td><td>35 500</td><td>Revaluation</td><td>2 500</td><td>2 500</td><td>2 500 **(1) row (1)**</td></tr>
<tr><td></td><td>84 100</td><td>56 500</td><td>56 500</td><td></td><td>84 100</td><td>56 500</td><td>56 500</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Balance b/d</td><td></td><td>35 500</td><td>35 500 **(1) OF row**</td></tr>
</table>
*** Goodwill – 1 mark for both debit and credit entries**</td><td>**6**</td></tr>
<tr><td>3(c)</td><td>Depends on the agreement on the initial loan
Current loan is free of interest
May need additional capital
Partnership has insufficient liquid assets at present
May have to take loan / overdraft which will be charged interest
Interest would reduce the future profit
May require security for loan

1 mark for decision and 4 marks for justification.</td><td>**5**</td></tr>
</table>

Question	Answer	Marks
4(a)	$ $ Sales revenue 203 000 Variable costs Direct materials 48 140 Direct labour 38 860 Production overheads 23 200 Selling expenses <u>20 300</u> <u>130 500</u> **(1)** Contribution 72 500 **(1)OF** Fixed costs Production overheads 20 450 Administration overheads 32 250 Selling expenses <u>15 600</u> <u>68 300</u> **(1)** Profit for the quarter <u>4 200</u> **(1)OF**	**4**
4(b)	Contribution per unit: 72 500 / 58 000 = $1.25 **(1)OF** Breakeven point: 68 300 / 1.25 = 54 640 units **(1)OF**	**2**
4(c)(i)	Proposal A $ Variable costs 130 500 – (58 000 · $0.10) – (203 000 · 2%) 120 640 **(1)OF** Variable costs per unit 120 640 / 58 000 2.08 **(1)OF** Contribution per unit 3.50 – 2.08 1.42 Fixed costs 68 300 – 12 000 56 300 **(1)OF**	**4**
4(c)(ii)	Proposal B $ Variable costs 130 500 + (58 000 · $0.15) + (58 000 · 0.35 · 10%) **(1)** 141 230 **(1)OF** Variable costs per unit 141 230 / 58 000 2.435 **(1)OF** Contribution per unit 3.85 – 2.435 1.415 Fixed costs 68 300 + 5000 **(1)** – 12 000 61 300 **(1)OF** To achieve profit (61 300 + 20 000) / 1.415 57 456 units **(1)OF**	**6**

Question	Answer	Marks
4(d)	Proposal A Benefits (Max 2) ∞ Breakeven point reduces from 54 640 units to 53 733 units ∞ Reduced cash outflows on direct materials and administrative expenses Proposal A Drawbacks (Max 2) ∞ Reduced sales commission may result in fewer agency sales ∞ Reduced administrative backup may hinder growth ∞ Less expensive direct material may affect quality ∞ Redundancy will incur costs / demotivate staff / result in bad image Proposal B Benefits (Max 2) ∞ Opportunity to market new improved product ∞ More expensive direct material may enhance quality ∞ Opportunity to raise awareness with advertising spend ∞ Sales commission retained at current level Proposal B Drawbacks (Max 2) ∞ Breakeven point increases from 54 640 units to 57 456 units ∞ Reduced administrative backup may hinder growth ∞ Increased cash outflow of direct materials and advertising ∞ Will sufficient sales be made to reach breakeven point? ∞ Redundancy will incur costs / demotivate staff / result in bad image **1 mark for recommendation.** **Overall max 7 marks for benefits and drawbacks**	**8**

Question	Answer	Marks
4(e)	Advantages: ∞ Facilitates longer term planning ∞ Promotes co-ordination between departments ∞ Enables monitoring and control ∞ Can act as motivation for employees ∞ Helps the allocation and use of resources ∞ May provide a framework for delegation / responsibility accounting ∞ Aids decision making Disadvantages: ∞ Can discourage innovation ∞ May de-motivate staff if set too challenging ∞ May prevent progress if set too undemanding ∞ Can be a time consuming and costly operation ∞ May require specialist staff ∞ May cause conflict between departments regarding the allocation of resources **1 mark for each valid point**	**6**