

Cambridge
International
AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/21

Paper 2 Structured Questions

May/June 2018

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 **15** printed pages.

 **Cambridge Assessment**
International Education

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)	<p style="text-align: right;">Ashir, Bo and Chan</p> <p style="text-align: center;">Income statement for the year ended 31 December 2016</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right; width: 10%;">\$</td> <td style="text-align: right; width: 10%;">171 620</td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> </tr> <tr> <td>Operating expenses</td> <td style="text-align: right;">54 560</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Staff Wages</td> <td style="text-align: right;">33 360</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Loan interest</td> <td style="text-align: right;">1 200</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation – Fixtures and fittings</td> <td style="text-align: right;">1 100</td> <td></td> </tr> <tr> <td>Depreciation – motor vehicles</td> <td style="text-align: right;">16 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right; border-top: 1px solid black;">17 100</td> <td style="text-align: right; border-top: 1px solid black;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">65 400</td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">(1) OF</td> </tr> </table>		\$	171 620	Gross profit			Operating expenses	54 560	(1)	Staff Wages	33 360	(1)	Loan interest	1 200	(1)	Depreciation – Fixtures and fittings	1 100		Depreciation – motor vehicles	16 000	(1)	Profit for the year	17 100	(1)		65 400	(1) OF	5																									
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1(f)	<p>Advice</p> <p>Yes he should maintain a full set of accounting records (1)</p> <p>Reasons Advantages (Max 2) Business is growing fast Enables closer monitoring of performance Enables Bilal to control the business performance Enable Bilal to maximise opportunities</p> <p>Disadvantages (Max 2) More time consuming Need to employ specialist staff</p> <p>1 mark for advice, maximum 2 marks for advantages and max 2 marks for disadvantages</p>	5
1(g)	<p>Minimises possibility of bad debts Independent check on arithmetic accuracy Reduces possibility of fraud Provides instant record of total trade receivables Facilitates preparation of financial statements</p> <p>1 mark for each benefit – maximum 2 marks</p>	2

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2(b)	<p>Depreciation for the year ended 31 December 2015 would be \$27 200 using the straight-line method, but \$24 375 using the reducing balance method (1).</p> <p>The loss on sale of the motor vehicle would be \$1 600 (36 000 – 20 000 – 14 400) using the straight-line method, compared to \$250 using the reducing balance method (1of).</p> <p>Using straight line depreciation 27 200 + loss 1600 = \$28 800 (1)</p> <p>Using reducing balance method 24 375 + loss 250 = \$24 625 (1)</p> <p>Profit for the year would be reduced by \$4 175 (\$28 800 – 24 625) if using the straight-line method (1of).</p>	5
2(c)	<p>Accruals / matching concept (1). The cost of using the asset should be matched to the time period of income earned by the asset (1).</p> <p>Prudence (1). Spreading the cost of an asset over its useful life avoids overstating annual profits / value of assets (1).</p> <p>Consistency (1). Enables valid comparison. (1)</p> <p>Max 4</p>	4

Question	Answer	Marks
3(a)(i)	<p>Current ratio</p> <p>63 580 / 28 760 (1) = 2.21 : 1 (1)</p>	2
3(a)(ii)	<p>Liquid (Acid) test ratio</p> <p>5 480 / 28 760 (1) = 0.89 : 1 (1)</p>	2
3(a)(iii)	<p>Rate of inventory turnover</p> <p>265 400 / 42 150 = 6.30 times per year (1) OF</p> <p>Workings: 331 750 / 100 · 80 (1) = 265 400 (1)</p>	3

Question	Answer	Marks
3(b)	<p>Yuan has the higher current ratio (1) and liquid (acid) test ratio (1) Ravi has a negative liquid (acid) test ratio (1) therefore he would be less able to pay promptly (1) as he has more of his current assets tied up in inventory (1) She would need to consider that Yuan has more assets lying idle and so he may not be as efficient. (1) She should try to discover more about their long term assets and liabilities (1)</p> <p>Decision (1) mark</p> <p>Justification Max 4 marks</p>	5
3(c)	<p>Historic Window dressing Different accounting policies Different year end Different sizes</p> <p>1 mark for each point to a max of 3</p> <p>Accept other valid points</p>	3

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4(h)	<p>Proceed or not (1)</p> <p>The campaign will result in a loss of profit but will still have positive contribution. How short term is the price decrease / is it only for this one order? Will it affect year 2 profits? Will fixed costs be covered in the long term? Will the increase in advertising be enough to generate the expected level of demand? What will the existing customers reactions be to the price decrease for new customers?</p> <p>If they do not get new customers:</p> <p>What will the morale of the existing workers be like after staff reduction? Will the quality of the goods go down if there are fewer workers? How temporary will the loss of staff be? Will Zinan be able to re-recruit the skilled staff in year 2 when new orders come in? At what extra cost?</p> <p>(1 mark) · any 4 considerations</p> <p>Max 5</p>	5