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 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.

Cambridge International is publishing the mark schemes for the October/November 2018 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>(9100) + 1800 (1) – 1600 (1) = $(8900) overdrawn (1) OF</td><td>3</td></tr>
<tr><td>1(b)</td><td>Total trade receivables account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Sales</td><td>144 200</td><td></td><td>Bank W1</td><td>100 400</td><td>(2)</td></tr>
<tr><td></td><td></td><td></td><td>Discount allowed</td><td>100</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Balance c/d</td><td>43 700</td><td></td></tr>
<tr><td></td><td>144 200</td><td></td><td></td><td>144 200</td><td></td></tr>
<tr><td>Balance b/d</td><td>43 700</td><td>(1) OF</td><td></td><td></td><td></td></tr>
</table>
W1 98 600 (1) + 1 800 (1) = 100 400</td><td>4</td></tr>
<tr><td>1(c)</td><td>Total trade payables account
<table>
<tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Bank W1</td><td>66 700</td><td>(2)</td><td>Purchases</td><td>79 300</td><td></td></tr>
<tr><td>Discount received</td><td>500</td><td>(1) OF</td><td></td><td></td><td></td></tr>
<tr><td>Balance c/d</td><td>12 100</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>79 300</td><td></td><td></td><td>79 300</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Balance b/d</td><td>12 100</td><td>(1)</td></tr>
</table>
W1 65 100 (1) + 1 600 (1) = 66 700</td><td>4</td></tr>
<tr><td>1(d)</td><td>Cash account
<table>
<tr><td></td><td>$</td><td></td><td></td><td><b>$</td><td></td></tr>
<tr><td>Bank</td><td>35 600</td><td></td><td>Wages</td><td>14 400</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Drawings</td><td>6 000</td><td>(1)</td></tr>
<tr><td></td><td></td><td></td><td>Other operating expenses</td><td>15 100</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Balance c/d</td><td>100</td><td></td></tr>
<tr><td></td><td>35 600</td><td></td><td></td><td>35 600</td><td></td></tr>
<tr><td>Balance b/d</td><td>100</td><td>(1)</td><td></td><td></td><td></td></tr>
</table></td><td>4</td></tr>
</table>

Question	Answer	Marks
1(e)	(see table below)	9

Finn
Income statement for the year ended 31 December 2017

	$		$	
Revenue			144 200	
Purchases	79 300			
Inventory at 31 December 2017	6 200			
Cost of sales			73 100	
Gross profit			71 100	**(1)**
Discount received			500	**(1)OF**
			71 600	
Expenses				
Discount allowed	100	**(1)**		
Rent	12 000			
Wages	14 400	**(1)OF**		
Other operating expenses **W1**	16 100	**(2)OF**		
Depreciation	1 400	**(1)**		
Interest charges	200	**(1)**	44 200	
Profit for the year			27 400	**(1)OF**

W1 15 100 **(1)OF** + 1 000 **(1)** = 16 100

Question	Answer	Marks
1(f)	Could maintain full up-to-date accurate records **(1)** Will improve decision-making **(1)** Could provide credit control systems **(1)** Improve cash flow / reduce irrecoverable debts **(1)** Making sufficient profits to afford bookkeeper's wages **(1)** Increased wages ($6 000) / affordability would result in decreased profits **(1)** Failure to maintain full up to date records could lead to business failure **(1)** **Accept other valid responses** **(max 3)** for comments, plus **(1)** for decision	**4**
1(g)	To avoid trade receivables / current assets being overstated **(1)** To avoid profit being overstated **(1)** To comply with the prudence concept **(1)** To comply with the matching concept **(1)** **Max 2 marks**	**2**

Question	Answer	Marks
2(a)	<table><tr><td></td><td>Jack **$**</td><td>Kelly **$**</td><td>Liam **$**</td><td></td><td></td><td>Jack **$**</td><td>Kelly **$**</td><td>Liam **$**</td><td></td></tr><tr><td>Goodwill</td><td>10 500</td><td>26 250</td><td>15 750</td><td>**(1)**</td><td>Balance b/d</td><td>33 000</td><td>71 000</td><td></td><td></td></tr><tr><td>Bank</td><td>19 500</td><td>37 250</td><td></td><td>**(1)OF**</td><td>Revaluation</td><td>6 000</td><td>15 000</td><td></td><td>**(1)**</td></tr><tr><td>Balance c/d</td><td>24 000</td><td>60 000</td><td>36 000</td><td></td><td>Goodwill</td><td>15 000</td><td>37 500</td><td></td><td>**(1)**</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>Bank</td><td></td><td></td><td>51 750</td><td>**(1)OF**</td></tr><tr><td></td><td>54 000</td><td>123 500</td><td>51 750</td><td></td><td></td><td>54 000</td><td>123 500</td><td>51 750</td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>Balance b/d</td><td>24 000</td><td>60 000</td><td>36 000</td><td>**(1)**</td></tr></table> **NOTES:** All marks are for a correct row	**6**
2(b)	The difference between the value of a business as a whole and the separate value of the net tangible assets **(1).** **OR** The (intangible) value of reputation/customer base/location, etc. **(1)**	**1**
2(c)	The adjustment will ensure that the original partners benefit, because it is their efforts which have created the goodwill. **1 mark** for clarifying that the original partners benefit; **1 mark** for explaining why they should benefit.	**2**
2(d)	The value is just a matter of opinion / subjective **(1)** so it is difficult to value **(1)** The value could be subject to sudden change **(1)** for example if a problem arose which caused damage to the partnership's reputation **(1)**. **1 mark** for giving one reason and **1 mark** for development	**2**

Question	Answer	Marks
2(e)	<table><tr><th>Return on capital employed</th><th></th><th></th></tr><tr><td>30 June 2019</td><td>$\frac{\$60\,000}{\$120\,000} \times 100$</td><td>50% **(1)**</td></tr><tr><td>30 June 2018</td><td>$\frac{\$48\,000}{\$104\,000}$ **W1** $\times 100$</td><td>46.15% **(1)OF**</td></tr></table> **W1** Profit for the year ended 30 June 2018 ($60 000 × 4 / 5) = $48 000 **(1)** Advice. The return on capital employed will improve (by 3.85%) **(1)OF**	**4**

Question	Answer	Marks
3(a)(i)	Improves the perception of the company size (**1**) by increasing the issued share capital of the company **(1)** To capitalise non-distributable reserves **(1)** but overall, total equity will remain the same **(1)** To reward the company's investors **(1)** when profits are not sufficient to pay dividends **(1)** Can be used to keep existing shareholders happy **(1)** and may be attractive to potential investors **(1)** **1 mark per valid point + 1 for development to max of 4**	**4**
3(a)(ii)	To write off expenses relating to: company formation the issue of debentures the issue of shares redemption of debentures **1 mark per valid point to max of 3**	**3**

Question	Answer	Marks
3(b)	S Limited Statement of changes in equity for the year ended 31 December 2017	**6**

	Ordinary share capital $	Share premium $	General reserve $	Retained earnings $	Total $
Brought forward at 1 January 2017	1 250 000	–	130 000	65 000	1 445 000
Profit for the year				255 000 **(2) / (1)***	255 000
Dividend – final 2016 – interim 2017				(125 000) **(1)** (46 875) **(1)**	(125 000) (46 875)
Issue of ordinary shares	312 500 **(1)**	593 750 **(1)**			906 250
Balance at 31 December 2017	1 562 500	593 750	130 000	148 125	2 434 375

* $268 500 **(1)** / $255 000 **(2)**

Question	Answer	Marks
3(c)	Debit Non-current asset **(1)** Credit Revaluation reserve **(1)**	**2**

Question	Answer	Marks
4(a)	The point where the business is making neither a profit nor a loss **(1)**	**1**
4(b)	Make or buy decisions **(1)** Limited resources **(1)** Special orders **(1)** Production scheduling **(1)** Product / departmental closure **(1)** **Accept other valid responses.** **Max (3)**	**3**
4(c)(i)	bulk buying / economies of scale / supplier price reduction **Max (1)**	**1**
4(c)(ii)	overtime rates / increase basic wage rates	**1**
4(d)	Fixed costs are only fixed over a given range of activity **(1)** As this business is expanding its capacity, some fixed costs may increase **(1)** Such as: • Rates – larger floor area used **(1)** • Supervisors' salaries – increase in staff numbers (so more supervisors required) **(1)** • Depreciation – additional machinery required **(1)** • Maintenance – increased operations (therefore more servicing required) **(1)** **Max (1) for developed examples. Overall max (3)**	**3**

Question	Answer	Marks
4(e)(i)	<table><tr><td></td><td>**$**</td><td></td></tr><tr><td>Revenue ($195 × 8 000)</td><td>1 560 000</td><td>**(1)**</td></tr><tr><td>Direct materials ($23.20 × 8 000)</td><td>185 600</td><td>**(1)**</td></tr><tr><td>Direct labour ($86.40 × 8 000)</td><td>691 200</td><td>**(1)**</td></tr><tr><td>Variable overheads ($12 × 8 000)</td><td><u>96 000</u></td><td>**(1)**</td></tr><tr><td>Total contribution ($73.40 × 8 000)</td><td>587 200</td><td></td></tr><tr><td>Fixed costs</td><td><u>302 400</u></td><td>**(1)**</td></tr><tr><td>Profit for the year</td><td><u>284 800</u></td><td>**(1)OF**</td></tr></table>	**6**
4(e)(ii)	Profit per unit = $\frac{284\,800}{8000}$ = $35.60 **(1)OF**	**1**
4(e)(iii)	Based on **(e)(i)** = 37.64 % **(2) / (1)OF**	**2**
4(f)	$\left.\frac{302\,400}{37.64\%}\right\}$ **1(OF)** = $803 400 **(1) OF** / $195 = 4 120 units **(1)OF** **Alternative presentation** $\left.\frac{302\,400}{73.40}\right\}$ **(1OF)** = 4 120 units **(1) OF** × $195 = $803 400 **(1OF)**	**3**

Question	Answer	Marks
4(g)	Shareholders' investment has become riskier **(1)** because of the increased external borrowing **(1).** Loan interest has to be paid **(1)** whether profit is earned or not **(1)**, but overall profit should increase **(1).** Repayment of the external borrowing may result in future cash flow problems **(1)** **Accept other valid responses.**	**4**
4(h)	**Positive** Market share should increase **(1)** overall profit may increase **(1)**. Expansion may encourage further shareholder investment **(1)** **Negative** As a result of reducing the selling price and increased costs, the profit per unit will fall **(1)** and the breakeven point will increase **(1)** The directors should consider how certain the company are that all of the increased production will be sold **(1)** how reliable the directors other estimates are **(1)** and whether suitable labour and other resources will be available **(1)**. They must also ensure that funds will be available to repay the loan. **(1)** **Max (4) for comments** **1 mark for decision.**	**5**