
ACCOUNTING

9706/22

Paper 2 Structured Questions

October/November 2019

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 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

This document consists of **15** printed pages.

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: center;">R Limited</p> <p>Income statement for the year ended 30 June 2018</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td style="text-align: right;">286 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Cost of sales W1</td> <td style="text-align: right;"><u>(138 350)</u></td> <td style="text-align: right;">(3)</td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">147 650</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Administrative expenses W2</td> <td style="text-align: right;">(28 300)</td> <td style="text-align: right;">(5)</td> </tr> <tr> <td>Distribution costs W3</td> <td style="text-align: right;">(86 000)</td> <td style="text-align: right;">(4)</td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;">33 350</td> <td style="text-align: right;">(1) OF</td> </tr> <tr> <td>Finance cost</td> <td style="text-align: right;"><u>(7 500)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>25 850</u></td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table> <p>W1 Cost of sales: $\\$(45\,000 + 135\,000) = \\$180\,000$ (1) – $41\,650$ (1) = $138\,350$ (1) OF</p> <p>W2 Administrative Expenses</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Depreciation on fixture and fittings ($40\,000 \times 10\%$)</td> <td style="text-align: right;">4 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Insurance ($12\,000 + (1\,000 + 500)$)</td> <td style="text-align: right;">13 500</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Electricity ($2\,700 - (500 + 400)$)</td> <td style="text-align: right;">1 800</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Wages and salaries ($45\,000 \times \frac{1}{5}$)</td> <td style="text-align: right;"><u>9 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>28 300</u></td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table> <p>W3 Distribution costs</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">\$</th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>Motor vehicle expenses</td> <td style="text-align: right;">10 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation on motor vehicles ($150\,000 + 50\,000 \times 20\%$)</td> <td style="text-align: right;">40 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Wages and salaries ($45\,000 \times \frac{4}{5}$)</td> <td style="text-align: right;"><u>36 000</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>86 000</u></td> <td style="text-align: right;">(1) OF</td> </tr> </tbody> </table>		\$		Revenue	286 000	(1)	Cost of sales W1	<u>(138 350)</u>	(3)	Gross profit	147 650	(1) OF	Administrative expenses W2	(28 300)	(5)	Distribution costs W3	(86 000)	(4)	Profit from operations	33 350	(1) OF	Finance cost	<u>(7 500)</u>	(1)	Profit for the year	<u>25 850</u>	(1) OF		\$		Depreciation on fixture and fittings ($40\,000 \times 10\%$)	4 000	(1)	Insurance ($12\,000 + (1\,000 + 500)$)	13 500	(1)	Electricity ($2\,700 - (500 + 400)$)	1 800	(1)	Wages and salaries ($45\,000 \times \frac{1}{5}$)	<u>9 000</u>	(1)		<u>28 300</u>	(1) OF		\$		Motor vehicle expenses	10 000	(1)	Depreciation on motor vehicles ($150\,000 + 50\,000 \times 20\%$)	40 000	(1)	Wages and salaries ($45\,000 \times \frac{4}{5}$)	<u>36 000</u>	(1)		<u>86 000</u>	(1) OF	17
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Question	Answer	Marks												
1(b)	<ul style="list-style-type: none"> • Capital reserves are created as a result of non-trading activities (1) whereas revenue reserves are created as a result of trading activities (1) • Capital reserves cannot be used to fund dividend payments (1) whereas revenue reserves can be used to fund dividend payments (1) • Capital reserves are non-distributable (1) whereas revenue reserves are distributable (1) <p>Accept other valid points. Max 4.</p>	4												
1(c)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="286 592 1137 655" style="text-align: center;">Option 1 (Shares)</th> <th data-bbox="1137 592 1989 655" style="text-align: center;">Option 2 (Debentures)</th> </tr> </thead> <tbody> <tr> <td data-bbox="286 655 1137 719">Payment of dividends is discretionary (1)</td> <td data-bbox="1137 655 1989 719">Debenture interest must be paid (1)</td> </tr> <tr> <td data-bbox="286 719 1137 783">May dilute ownership/control (1)</td> <td data-bbox="1137 719 1989 783">Would not dilute ownership/control (1)</td> </tr> <tr> <td data-bbox="286 783 1137 847">Permanent capital (1)</td> <td data-bbox="1137 783 1989 847">Would increase the non-current liabilities (1)</td> </tr> <tr> <td data-bbox="286 847 1137 911">No security required (1)</td> <td data-bbox="1137 847 1989 911">Security may be required (1)</td> </tr> <tr> <td data-bbox="286 911 1137 975">Dividends do not reduce the profit for the year (1)</td> <td data-bbox="1137 911 1989 975">Payment of interest will reduce the profit for the year (1)</td> </tr> </tbody> </table> <p>Accept other valid responses. Max 4 Decision (1)</p>	Option 1 (Shares)	Option 2 (Debentures)	Payment of dividends is discretionary (1)	Debenture interest must be paid (1)	May dilute ownership/control (1)	Would not dilute ownership/control (1)	Permanent capital (1)	Would increase the non-current liabilities (1)	No security required (1)	Security may be required (1)	Dividends do not reduce the profit for the year (1)	Payment of interest will reduce the profit for the year (1)	5
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Question	Answer	Marks
1(d)(i)	<p>Advantages</p> <ul style="list-style-type: none"> • Will improve overall cash flow (1) • Reduces the possibility of irrecoverable debts (1) <p>Disadvantages</p> <ul style="list-style-type: none"> • Maybe a reduction in number of customers (1) • May have to reduce selling price to attract new customers (1) <p>Accept other valid advantages and disadvantages. Max 1 advantage and 1 disadvantage.</p>	2
1(d)(ii)	<p>Advantages</p> <ul style="list-style-type: none"> • May improve the relationships with the suppliers (1) • May be able to negotiate a better purchase price (1) <p>Disadvantages</p> <ul style="list-style-type: none"> • Overall cash flow will decrease (1) • Not making use of available credit terms (1) <p>Accept other valid advantages and disadvantages. Max 1 advantage and 1 disadvantage</p>	2

Question	Answer	Marks
2(a)(i)	<p>25 days (2)</p> <p>Working $\frac{(30\,000 + 50\,000)}{2} = \frac{40\,000}{600\,000} \times 365 = 25 \text{ days (1) OF}$ $750\,000 \times 80\% = 600\,000 \text{ (1)}$</p>	2
2(a)(ii)	<p>36 days (2)</p> <p>Working $\frac{65\,000}{675\,000} \times 365 = 36 \text{ days (1) OF}$ $750\,000 \times 90\% = \\$675\,000 \text{ (1)}$</p>	2
2(a)(iii)	<p>25 days (3)</p> <p>Working $\frac{31\,850}{465\,000} \times 365 = 25 \text{ days (1) OF}$ $600\,000 + 50\,000 - 30\,000 = 620\,000 \text{ (1)}$ $620\,000 \times 75\% = 465\,000 \text{ (1) OF}$</p>	3

Question	Answer	Marks
2(b)	<p>Inventory turnover indicates that it is taking longer than the industry average to sell goods (1) resulting in a delay in receipt of payment from customers (1)</p> <p>Nibali's customers are taking 6 days over the credit terms to settle their accounts and Nibali is paying his suppliers 5 days early (1) resulting in cash leaving the business before settlement is received (1)</p> <p>Conclusion/advice Overall, Nibali's efficiency ratios indicate poor liquidity (1)</p> <p>Accept other valid points.</p>	5
2(c)	<p>Theft (1) Storage costs (1) Insurance (1) Obsolescence (1) Damage (1) Opportunity cost (1)</p> <p>Accept other valid points. Max 3.</p>	3

Question	Answer											Marks
3(a)	Capital accounts											6
		Miguel		Bernard		Eddy			Miguel			
	Goodwill	20 000		12 000		8000 *	Balance b/d	100 000		145 000		(1)
	Balance c/d	103 040		167 560		82 000	Bank				50 000	(1)
							Assets				40 000	(1)
							Goodwill	16 000		24 000		(1) *both
							Revaluation	7040		10 560		(1)
		123 040		179 560		90 000		123 040		179 560	90 000	
							Balance b/d	103 040		167 560	82 000	(1)

Question	Answer				Marks
3(b)	Miguel, Bernard and Eddy Appropriation Account for the year ended 31 May 2019				5
		4 months \$		8 months \$	
	Profit	13 000		26 000	
	Loan interest	–		2000	(1)
	Profit for the period	13 000		24 000	
	Salary – Eddy			8000	(1)
	Share of profit				
	Miguel	6500		6400	(1) for both
	Bernard	3900		6400	(1) for both
	Eddy	<u>2600</u>		<u>3200</u>	(1) for both
		<u>13 000</u>		<u>16 000</u>	

Question	Answer	Marks
3(c)	<p>Capital accounts Separate capital accounts record the permanent investment of each partner (1) facilitating the calculation of interest on capital (1)</p> <p>Current accounts Separate current accounts record the transactions between the partners and the partnership (1) facilitating the calculation of interest on drawings (1)</p>	4

Question	Answer	Marks																				
4(a)	<p>Estimated figures used may be inaccurate (1) leading to under or over absorption of overheads (1)</p> <p>Over absorption of overheads may lead to prices being set too high (1) which may lead to loss of customers (1)</p> <p>Under absorption of overheads may lead to prices being set too low (1) which would result in lower profits (1)</p> <p>Accept other valid points.</p> <p>Any 2 drawbacks (2 marks each) 1 mark for identifying the drawback and 1 mark or developing.</p>	4																				
4(b)(i)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 40%;"></th> <th style="width: 20%; text-align: center;">Drilling</th> <th style="width: 20%; text-align: center;">Finishing</th> <th style="width: 20%; text-align: center;">Total</th> </tr> <tr> <th></th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> <th style="text-align: center;">\$</th> </tr> </thead> <tbody> <tr> <td>Allocated costs</td> <td style="text-align: right;">435 720</td> <td style="text-align: right;">748 900</td> <td style="text-align: right;">208 000</td> </tr> <tr> <td>Apportioned maintenance costs</td> <td style="text-align: right;">79 040</td> <td style="text-align: right;">128 960</td> <td></td> </tr> <tr> <td>Total departmental overheads</td> <td style="text-align: right;">514 760 (1)</td> <td style="text-align: right;">877 860 (1)</td> <td></td> </tr> </tbody> </table> <p>Accept either apportioned maintenance costs OR total departmental overheads for marks.</p>		Drilling	Finishing	Total		\$	\$	\$	Allocated costs	435 720	748 900	208 000	Apportioned maintenance costs	79 040	128 960		Total departmental overheads	514 760 (1)	877 860 (1)		2
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4(c)	<p data-bbox="304 248 477 284">\$235 500 (3)</p> <p data-bbox="304 320 443 355">Workings</p> <table data-bbox="304 355 862 603"><tr><td data-bbox="304 355 477 391">Basic</td><td data-bbox="510 355 862 391">$7500 \times \\$30 = \\$225\,000$ (1)</td></tr><tr><td data-bbox="304 391 477 426">Overtime</td><td data-bbox="510 391 862 426">$700 \times \\$15 = \\$10\,500$ (1)</td></tr><tr><td data-bbox="304 426 477 461">Total wages</td><td data-bbox="510 426 862 461">\$235 500 (1) OF</td></tr><tr><td colspan="2" data-bbox="387 461 421 496" style="text-align: center;">or</td></tr><tr><td data-bbox="304 496 477 531">Basic</td><td data-bbox="510 496 862 531">$6800 \times 30 = \\$204\,000$ (1)</td></tr><tr><td data-bbox="304 531 477 566">Overtime</td><td data-bbox="510 531 862 566">$700 \times 45 = \\$31\,500$ (1)</td></tr><tr><td data-bbox="304 566 477 601">Total wages</td><td data-bbox="510 566 862 601">\$235 500 (1) OF</td></tr></table>	Basic	$7500 \times \$30 = \$225\,000$ (1)	Overtime	$700 \times \$15 = \$10\,500$ (1)	Total wages	\$235 500 (1) OF	or		Basic	$6800 \times 30 = \$204\,000$ (1)	Overtime	$700 \times 45 = \$31\,500$ (1)	Total wages	\$235 500 (1) OF	3
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Question	Answer						Marks	
4(d)	Actual absorption rates and over/under-absorption						8	
		Drilling \$		Finishing \$		Maintenance \$		
	Total overhead costs	427 360		713 630		235 500		
	Apportioned maintenance	89 490		146 010		(235 500)		
		<u>516 850</u>	(1)	<u>859 640</u>	(1)			
	Actual machine hours	25 110		31 976				
	Budgeted overhead absorption rate	\$18.70		\$27.20				
	Overheads charged to production	\$469 557	(1) OF	\$869 747	(1) OF			
	Under/over recovery of overheads	47 293	(1) OF	10 107	(1) OF			
		(under)	(1) OF	(over)	(1) OF			

Question	Answer	Marks
4(e)	<p>Financial factors (Max 3) Makes a positive contribution (1) ($\\$1300 - (710 + 225 + 85 + 140) = \\140) (1) Does not achieve the required profit margin (1) Makes a loss of \$160 (1) The allocation of fixed overheads may be inaccurate (1)</p> <p>Non-financial factors (Max 3) This is a new customer. Will there be repeat orders? (1) What will be the reaction of the existing customers? (1) Does the company have spare capacity/other resources? (1) Will the quality of the product be affected (1)</p> <p>Decision (1)</p> <p>Accept other valid points.</p>	7
4(f)	<p>Quality – will the product quality be the same? (1) Price – is the new supplier likely to offer a lower price? (1) Credit terms – will the new supplier offer the same credit terms? (1) Reliability – is the supplier reliable? (1) Delivery – will the supplier offer delivery? (1)</p> <p>Accept other valid points. Max 4.</p>	4