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**ACCOUNTING**

**9706/21**

Paper 2 Structured Questions

**October/November 2017**

MARK SCHEME

Maximum Mark: 90

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**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 2017 series for most Cambridge IGCSE<sup>®</sup>, Cambridge International A and AS Level components and some Cambridge O Level components.

Question	Answer	Marks																					
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1(c)	<p><b>Benefits: (maximum 3 marks)</b>            Provides a total for trade receivables. <b>(1)</b>            Helps in the preparation of the financial statements. <b>(1)</b>            Helps deter/prevent/reduce fraud as it is maintained by different person. <b>(1)</b>            Verifies the arithmetical accuracy / identifies errors in the sales ledger. <b>(1)</b>            Can be reconciled with the sales ledger balances to improve accuracy. <b>(1)</b></p> <p><b>Limitation: (maximum 1 mark)</b>            Doesn't identify errors of commission/omission/compensating/original entry. <b>(1)</b></p>	<b>4</b>
1(d)(i)	<p><b>operating expenses to revenue (to two decimal places)</b>  <math>(57\,910 - 11\,130) / 294\,200 \times 100 = 19.30\%</math> <b>(1 OF)</b></p>	<b>4</b>
1(d)(ii)	<p><b>inventory turnover (days)</b>  <math>(56\,800 + 60\,500) / 2 \times 365 / 235\,360 = 91</math> days <b>(1 OF)</b></p>	
1(e)(i)	<p>Carla may have better control on operating expenses.            Carla may have lower wages as she does the work herself, so takes higher drawings.            Carla may have less depreciation as she does not need delivery vehicles.            Allow other valid responses.</p> <p><b>Maximum 2 marks</b> (1 for stating and 1 for developing)</p>	<b>4</b>
1(e)(ii)	<p>Carla has a faster turnover of finished goods because all her products are sold on the day they are made.            Any inventory (e.g. flour) is perishable.</p> <p><b>Maximum 2 marks</b> (1 for stating and 1 for developing)</p>	

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2(c)	<p><b>Transaction 1:</b> Profit would decrease by \$2823 <b>(1)</b> due to the depreciation cost.</p> <p><b>Transaction 2:</b> Profit would increase by \$1509 <b>(1)</b> due to the profit on disposal of the asset.</p> <p>Alternative: The overall effect on profit for the year would be a decrease of \$1314 <b>(2)</b>.</p>	2

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3(a)(i)	<p>Ordinary shareholders have voting rights at general meetings, whereas cumulative preference shareholders do not. <b>(1)</b> The cumulative preference dividend is a fixed amount, whereas the ordinary dividend is set annually and can vary depending on profits. <b>(1)</b></p> <p>Unpaid ordinary dividends do not accumulate, whereas cumulative preference dividends Do. <b>(1)</b> If the company is liquidated, cumulative preference shareholders would be paid ahead of ordinary shareholders. <b>(1)</b></p> <p><b>Max 2</b></p>	2
3(a)(ii)	<p>Subscribers pay for shares in a rights issue, but not with a bonus issue. <b>(1)</b> The company's net assets are increased as a result of a rights issue, but unchanged with a bonus issue. <b>(1)</b> Shareholders may or may not exercise their rights, but will automatically receive their bonus shares. <b>(1)</b></p>	3

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3(c)	<p>Shareholders demand would result in a payment of \$60 000 (1)</p> <p>Retained earnings are only \$45 000 (1)</p> <p>Maximum dividend payable equals 45 000 / 125 000 = \$0.36 (1)</p> <p>There is sufficient cash in the bank (\$90 000) to pay the dividend, (1) but insufficient retained earnings. (1)</p> <p>Fewer funds for possible future development. (1)</p> <p>Share premium account could be used to issue bonus. (1)</p> <p><b>Max 4</b></p> <p><b>Accept other valid answers.</b></p>	4																																										

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4(a)	Method of costing that you apply to the production of a number of identical items. (1) The cost per unit is found by dividing the total batch cost by the number of units in the batch. (1)	2

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4(d)	<table style="width: 100%; border: none;"> <tr> <td style="width: 60%;"></td> <td style="width: 5%; text-align: center;">\$</td> <td style="width: 30%;"></td> <td style="width: 5%;"></td> <td style="width: 5%;"></td> </tr> <tr> <td>Direct materials</td> <td></td> <td style="text-align: right;">48 000.00</td> <td></td> <td></td> </tr> <tr> <td>Direct labour – assembly (500 hrs × \$12)</td> <td></td> <td style="text-align: right;">6 000.00</td> <td style="text-align: center;">} <b>(1)</b></td> <td></td> </tr> <tr> <td>Direct labour – machining (300 hrs × \$8)</td> <td></td> <td style="text-align: right;">2 400.00</td> <td style="text-align: center;">} <b>both</b></td> <td></td> </tr> <tr> <td>Production overheads (assembly 500 hrs × \$6.70)</td> <td></td> <td style="text-align: right;">3 350.00</td> <td style="text-align: center;"><b>(1of)</b></td> <td></td> </tr> <tr> <td>Production overheads (machining 500 hrs × \$9.91)</td> <td></td> <td style="text-align: right;">4 955.00</td> <td style="text-align: center;"><b>(1of)</b></td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">64 705.00</td> <td></td> <td></td> </tr> <tr> <td>Selling and administration costs costs</td> <td></td> <td style="text-align: right;">7 000.00</td> <td style="text-align: center;"><b>(1)</b></td> <td></td> </tr> <tr> <td>Total cost</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">71 705.00</td> <td style="text-align: center;"><b>(1of)</b></td> <td></td> </tr> <tr> <td>Cost per unit</td> <td></td> <td style="text-align: right;"><math>\frac{\\$71\,705}{1000}</math></td> <td style="text-align: center;">= \$71.71</td> <td style="text-align: center;"><b>(1of)</b></td> </tr> </table>						\$				Direct materials		48 000.00			Direct labour – assembly (500 hrs × \$12)		6 000.00	} <b>(1)</b>		Direct labour – machining (300 hrs × \$8)		2 400.00	} <b>both</b>		Production overheads (assembly 500 hrs × \$6.70)		3 350.00	<b>(1of)</b>		Production overheads (machining 500 hrs × \$9.91)		4 955.00	<b>(1of)</b>				64 705.00			Selling and administration costs costs		7 000.00	<b>(1)</b>		Total cost		71 705.00	<b>(1of)</b>		Cost per unit		$\frac{\$71\,705}{1000}$	= \$71.71	<b>(1of)</b>	<b>6</b>
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Question	Answer	Marks
4(h)	<p><b>Non-financial reasons (Max 2)</b></p> <p>If Anna doesn't fulfil the existing orders, the customers will not be happy / loss of reputation. <b>(1)</b>            Could have a knock-on effect for other orders of other products. <b>(1)</b>            Can workforce be used elsewhere if they don't make these orders / lay off workers. <b>(1)</b>            Morale of employees in existing factory.</p> <p><b>Financial reasons (Max 2)</b></p> <p>The orders provide a positive contribution towards fixed costs. <b>(1)</b>            At present current level of demand is below break-even point - factory operates at a loss. <b>(1)</b>            Demand may increase in the future and make the new factory profitable. <b>(1)</b>            How accurate is the financial data. <b>(1)</b>            Will closing the factory result in redundancy costs. <b>(1)</b></p> <p><b>1 mark</b> for advice and overall max <b>3 marks</b> for reasons.</p>	<b>4</b>