Cambridge International AS & A Level

Cambridge International Examinations
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

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

MARK SCHEME

Maximum Mark: 90

Published

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Question	Answer	Marks
1(a)	see below	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)	<table><tr><td></td><td></td><td>$</td><td></td></tr><tr><td>Current assets</td><td></td><td></td><td></td></tr><tr><td>Inventory</td><td></td><td>70 300</td><td></td></tr><tr><td>Trade and other receivables</td><td>W1</td><td>70 820</td><td>**(2)**</td></tr><tr><td>Cash and cash equivalents</td><td>W2</td><td>10 210</td><td>**(2)**</td></tr><tr><td>Total</td><td></td><td>151 330</td><td></td></tr></table> **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**

Question	Answer	Marks
3(a)	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**	**4**
3(b)	see account below *** Goodwill – 1 mark for both debit and credit entries**	**6**
3(c)	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.**	**5**

3(b)

	Amit		Wang	Susi		Amit		Wang	Susi	
	$		$	$		$		$	$	
Goodwill			21 000	21 000	Balance b/d	40 000		40 000	40 000	
Loan	69 100	**(1)OF**			Goodwill	14 000		14 000	14 000	**(1)***
Bank	15 000	**(1)**			Current	27 600	**(1)**			
Balance c/d	______		35 500	35 500	Revaluation	2 500		2 500	2 500	**(1) row (1)**
	84 100		56 500	56 500		84 100		56 500	56 500	
					Balance b/d			35 500	35 500	**(1) OF row**

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**