
ACCOUNTING

9706/22

Paper 2 Structured Questions

May/June 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 May/June 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **13** printed pages.

PUBLISHED**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;">Lee Income statement for the year ended 30 April 2019</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 10%;"></td> </tr> <tr> <td>Revenue</td> <td></td> <td></td> <td style="text-align: right;">161 800</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">12 500</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">97 110</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">109 610</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Less: Goods for own use</td> <td style="text-align: right;">250</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">109 360</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Add: Carriage inwards</td> <td style="text-align: right;">670</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black;">110 030</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Less Closing inventory</td> <td style="text-align: right;">23 340</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">86 690</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Gross profit</td> <td></td> <td></td> <td style="text-align: right;">75 110</td> <td style="text-align: right;">(1)OF</td> </tr> <tr> <td>Decrease in provision for doubtful debts</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">650</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">75 760</td> <td></td> </tr> <tr> <td>Other operating expenses</td> <td></td> <td></td> <td style="text-align: right;">61 990</td> <td></td> </tr> <tr> <td>Loan interest</td> <td></td> <td></td> <td style="text-align: right;">450</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Irrecoverable debts</td> <td></td> <td></td> <td style="text-align: right;">690</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Depreciation: motor vehicles</td> <td></td> <td></td> <td style="text-align: right;">6 000</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td style="padding-left: 20px;">office equipment</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">580</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit for the year</td> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">6050</td> <td style="text-align: right;">(1)OF</td> </tr> </table>		\$		\$		Revenue			161 800	(1)	Opening inventory	12 500				Purchases	97 110	(1)				109 610				Less: Goods for own use	250	(1)				109 360				Add: Carriage inwards	670	(1)				110 030				Less Closing inventory	23 340	(1)			Cost of sales			86 690	(1)OF	Gross profit			75 110	(1)OF	Decrease in provision for doubtful debts			650	(1)				75 760		Other operating expenses			61 990		Loan interest			450	(1)	Irrecoverable debts			690	(1)	Depreciation: motor vehicles			6 000	(1)	office equipment			580	(1)	Profit for the year			6050	(1)OF	13
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1(c)	<p>Benefits: (Max 2)</p> <p>Entitled to all profits (1)</p> <p>Quicker decision making (1)</p> <p>Full control of business operations (1)</p> <p>Drawbacks: (Max 2)</p> <p>Unlimited liability / no separate legal entity (1)</p> <p>All the risk / responsibilities (1)</p> <p>Limited opportunities for new ideas (1)</p> <p>Accept other valid points.</p>	4																								

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Question	Answer	Marks
1(d)	<p>Decision (1)</p> <p><i>Limited company (Max 2)</i></p> <p>There would be a potential dividend cost of \$7500</p> <p>Payment of dividends is discretionary</p> <p>Lee retains control of the business as he is the majority shareholder</p> <p><i>Partnership (Max 2)</i></p> <p>Marvin's interest on capital will cost a fixed \$3000 per annum</p> <p>Marvin is entitled to 30% of future profits but will also have to bear 30% of future losses</p> <p>The partnership will have unlimited liability</p>	5

Question	Answer	Marks
2(a)	<p>Dr Irrecoverable debts (1)</p> <p>Cr Dixie (1)</p>	2
2(b)	<p>$\\$10\,900 \times 5\% = \\545 (1)</p> <p>$\\$5\,040 \times 7.5\% = \underline{\\$378}$ (1)</p> <p>\$923 (2/1)OF</p>	4

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2(c)	<p style="text-align: center;">Provision for doubtful debts account</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">2018</td> <td style="width: 15%;"></td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">2018</td> <td style="width: 10%; text-align: right;">\$</td> </tr> <tr> <td></td> <td style="text-align: right;">Dec 31</td> <td style="text-align: right;">Income statement</td> <td style="text-align: right;">177</td> <td style="text-align: center;">(1) OF</td> <td style="text-align: right;">Jan 1</td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">1100</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">Balance c/d</td> <td style="text-align: right;"><u>923</u></td> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>1100</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;"><u>1100</u></td> <td></td> <td style="text-align: right;">2019</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td style="text-align: right;">Jan 1</td> <td style="text-align: right;">Balance b/d</td> <td style="text-align: right;">923 (1) OF</td> </tr> </table>		2018		\$		2018	\$		Dec 31	Income statement	177	(1) OF	Jan 1	Balance b/d	1100			Balance c/d	<u>923</u>				<u>1100</u>				<u>1100</u>		2019								Jan 1	Balance b/d	923 (1) OF	2
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2(d)	<p>Prudence (1)</p> <p>Profit/current assets/trade receivables should not be overstated (1)</p> <p>OR</p> <p>Matching / accruals (1)</p> <p>Revenue of an accounting period is matched against the costs of the same period (1)</p>	2																																							
2(e)	<p>Sofia's profit would now be \$4075 (4) a decrease of \$402. (1)</p> <p>Workings</p> <p>Using the existing policy the profit would be \$4477 (1) due to a decrease in the provision for doubtful debts (1) OF</p> <p>Under proposed change, the closing balance on the provision for doubtful debts account would be \$1325 (1).</p>	5																																							

Question	Answer	Marks
3(a)	<p>Companies may use different accounting policies (1)</p> <p>Historical cost is used to prepare accounts therefore may be misleading (1)</p> <p>There may be different year-ends/seasonal factors (1)</p> <p>There may be non-monetary factors to consider (1)</p> <p>Relative size of each business (1)</p> <p>The effect of window dressing (1)</p> <p>Accept any other valid responses</p> <p>Max 3 marks</p>	3
3(b)(i)	<p>Average inventory = $\frac{\\$459\,991}{7.5} = \\$61\,332$ (1)</p> <p>Average inventory $\times 2 = \\$122\,664$ (1)OF</p> <p>Closing inventory = $\\$122\,664 - \\$57\,682$</p> <p>= $\\$64\,982$ (1)OF</p>	3
3(b)(ii)	<p>$\frac{(35 \times \\$742\,630)}{365} = \\$71\,211$ (1)</p>	1
3(b)(iii)	<p>$\frac{(32 \times \\$367\,993^*)}{365} = \\$32\,262$ (1) OF</p> <p>* Credit purchases = $\\$459\,991 \times 80\% = \\$367\,993$ (1)</p>	2

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3(c)	<p style="text-align: center;">X Limited Income Statement for the year ended 30 April 2019</p> <table style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">742 630</td> <td></td> </tr> <tr> <td>Cost of sales</td> <td style="text-align: right;"><u>(459 991)</u></td> <td></td> </tr> <tr> <td>Gross profit</td> <td style="text-align: right;">282 639</td> <td></td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Distribution costs</td> <td style="text-align: right;">(148 526)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Administrative expenses</td> <td style="text-align: right;"><u>(74 263)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td> </td> <td></td> <td></td> </tr> <tr> <td>Profit from operations</td> <td style="text-align: right;">59 850</td> <td></td> </tr> <tr> <td>Finance costs</td> <td style="text-align: right;"><u>(2 850)</u></td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Profit for the year</td> <td style="text-align: right;"><u>57 000</u></td> <td></td> </tr> </table>		\$		Revenue	742 630		Cost of sales	<u>(459 991)</u>		Gross profit	282 639		 			Distribution costs	(148 526)	(1)	Administrative expenses	<u>(74 263)</u>	(1)	 			Profit from operations	59 850		Finance costs	<u>(2 850)</u>	(1)	Profit for the year	<u>57 000</u>		3
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3(d)	$\$312\,500 \text{ (1)} / 5 = 62\,500 \text{ shares (1)} \times \$1.50 = \$93\,750 \text{ (1)OF}$	3																																	

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4(a)	Workings: <table border="1" data-bbox="629 284 1644 1034" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Date</th> <th></th> <th>Kilos</th> <th>Per kilo \$</th> <th>Issues \$</th> <th>Total \$</th> </tr> </thead> <tbody> <tr> <td>March 1</td> <td>Opening balance</td> <td>1500</td> <td>1.90</td> <td></td> <td></td> </tr> <tr> <td>3</td> <td>Receipts</td> <td>3500</td> <td>1.92</td> <td></td> <td></td> </tr> <tr> <td>5</td> <td>Issues</td> <td>3000</td> <td>1500 × 1.90 1500 × 1.92</td> <td>2850 <u>2880</u> 5730</td> <td></td> </tr> <tr> <td>10</td> <td>Receipts</td> <td>2000</td> <td>1.95</td> <td></td> <td></td> </tr> <tr> <td>17</td> <td>Receipts</td> <td>1500</td> <td>2.00</td> <td></td> <td></td> </tr> <tr> <td>23</td> <td>Issues</td> <td>4500</td> <td>2000 × 1.92 2000 × 1.95 500 × 2.00</td> <td>3840 3900 <u>1000</u> 8740</td> <td></td> </tr> <tr> <td>31</td> <td>Closing balance</td> <td>1000</td> <td>× 2.00</td> <td></td> <td>2000</td> </tr> </tbody> </table>					Date		Kilos	Per kilo \$	Issues \$	Total \$	March 1	Opening balance	1500	1.90			3	Receipts	3500	1.92			5	Issues	3000	1500 × 1.90 1500 × 1.92	2850 <u>2880</u> 5730		10	Receipts	2000	1.95			17	Receipts	1500	2.00			23	Issues	4500	2000 × 1.92 2000 × 1.95 500 × 2.00	3840 3900 <u>1000</u> 8740		31	Closing balance	1000	× 2.00		2000	
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4(b)	<p>Easy to calculate (1)</p> <p>Inventory value is closer to current market value (1)</p> <p>An accepted method of valuing inventory for the financial statements (1)</p> <p>Max 2 marks</p> <p>Accept other valid points.</p>						2																																																
4(c)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="3"></th> <th rowspan="3">Total \$</th> <th colspan="3">Production cost centres</th> <th>Service cost centre</th> <th rowspan="3"></th> </tr> <tr> <th rowspan="2">Machining \$</th> <th rowspan="2">Assembly \$</th> <th rowspan="2">Stores \$</th> <th></th> </tr> <tr> <th></th> </tr> </thead> <tbody> <tr> <td>Depreciation</td> <td>9 760</td> <td>6 344</td> <td>1 952</td> <td>1 464</td> <td>(1) row</td> </tr> <tr> <td>Heat and Light</td> <td>13 850</td> <td>8 310</td> <td>4 155</td> <td>1 385</td> <td>(1) row</td> </tr> <tr> <td>Machinery maintenance</td> <td>6 500</td> <td><u>5 200</u></td> <td><u>1 300</u></td> <td>—</td> <td>(1) row</td> </tr> <tr> <td>Total overheads apportioned</td> <td></td> <td>19 854</td> <td>7 407</td> <td>2 849</td> <td></td> </tr> <tr> <td>Re-apportionment of stores</td> <td></td> <td><u>2 137</u></td> <td><u>712</u></td> <td>(2 849)</td> <td>(1) row</td> </tr> <tr> <td>Total overhead cost</td> <td></td> <td><u>21 991</u></td> <td>(1) OF</td> <td><u>8 119</u></td> <td>(1) OF</td> </tr> </tbody> </table>							Total \$	Production cost centres			Service cost centre		Machining \$	Assembly \$	Stores \$			Depreciation	9 760	6 344	1 952	1 464	(1) row	Heat and Light	13 850	8 310	4 155	1 385	(1) row	Machinery maintenance	6 500	<u>5 200</u>	<u>1 300</u>	—	(1) row	Total overheads apportioned		19 854	7 407	2 849		Re-apportionment of stores		<u>2 137</u>	<u>712</u>	(2 849)	(1) row	Total overhead cost		<u>21 991</u>	(1) OF	<u>8 119</u>	(1) OF	6
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		Machining \$	Assembly \$	Stores \$																																																			
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Heat and Light	13 850	8 310	4 155	1 385	(1) row																																																		
Machinery maintenance	6 500	<u>5 200</u>	<u>1 300</u>	—	(1) row																																																		
Total overheads apportioned		19 854	7 407	2 849																																																			
Re-apportionment of stores		<u>2 137</u>	<u>712</u>	(2 849)	(1) row																																																		
Total overhead cost		<u>21 991</u>	(1) OF	<u>8 119</u>	(1) OF																																																		

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Question	Answer	Marks																																																									
4(d)	<p><u>Machining</u> Overhead cost \$21 991 Machine hours 13 400 = \$1.64 (1) OF per machine hour (1)</p> <p><u>Assembly</u> Overhead cost \$8 119 Labour hours <u>6 300</u> = \$1.29 (1) OF per direct labour hour (1)</p>	4																																																									
4(e)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;"></td> <td style="text-align: right; width: 10%;">\$</td> <td style="width: 30%;"></td> </tr> <tr> <td>Direct materials (3 kilos × \$2.00)</td> <td style="text-align: right;">6.00</td> <td>(1)</td> </tr> <tr> <td>Direct labour (2.5 hours × \$4)</td> <td style="text-align: right;">10.00</td> <td>(1)</td> </tr> <tr> <td>Overheads (machining 1.5 hours × \$ 1.64)</td> <td style="text-align: right;">2.46</td> <td>(1) OF</td> </tr> <tr> <td>Overheads (assembly 2 hours × \$1.29)</td> <td style="text-align: right;"><u>2.58</u></td> <td>(1) OF</td> </tr> <tr> <td>Cost per unit</td> <td style="text-align: right;">21.04</td> <td></td> </tr> <tr> <td> × 200 units</td> <td></td> <td></td> </tr> <tr> <td>Total cost</td> <td style="text-align: right;">4 208</td> <td>(1) OF</td> </tr> <tr> <td>Mark-up/profit (25%)</td> <td style="text-align: right;"><u>1 052</u></td> <td>(1) OF</td> </tr> <tr> <td>Total selling price</td> <td style="text-align: right;"><u>5 260</u></td> <td>(1) OF</td> </tr> <tr> <td colspan="3" style="text-align: center; padding: 10px 0;">OR</td> </tr> <tr> <td></td> <td style="text-align: right;">\$</td> <td></td> </tr> <tr> <td>Direct materials</td> <td style="text-align: right;">1 200</td> <td>(1)</td> </tr> <tr> <td>Direct labour</td> <td style="text-align: right;">2 000</td> <td>(1)</td> </tr> <tr> <td>Overheads</td> <td style="text-align: right;">492</td> <td>(1) OF</td> </tr> <tr> <td>Overheads</td> <td style="text-align: right;"><u>516</u></td> <td>(1) OF</td> </tr> <tr> <td>Total cost</td> <td style="text-align: right;">4 208</td> <td>(1) OF</td> </tr> <tr> <td>Mark-up/profit (25%)</td> <td style="text-align: right;"><u>1 052</u></td> <td>(1) OF</td> </tr> <tr> <td>Total selling price</td> <td style="text-align: right;"><u>5 260</u></td> <td>(1) OF</td> </tr> </table>		\$		Direct materials (3 kilos × \$2.00)	6.00	(1)	Direct labour (2.5 hours × \$4)	10.00	(1)	Overheads (machining 1.5 hours × \$ 1.64)	2.46	(1) OF	Overheads (assembly 2 hours × \$1.29)	<u>2.58</u>	(1) OF	Cost per unit	21.04		× 200 units			Total cost	4 208	(1) OF	Mark-up/profit (25%)	<u>1 052</u>	(1) OF	Total selling price	<u>5 260</u>	(1) OF	OR				\$		Direct materials	1 200	(1)	Direct labour	2 000	(1)	Overheads	492	(1) OF	Overheads	<u>516</u>	(1) OF	Total cost	4 208	(1) OF	Mark-up/profit (25%)	<u>1 052</u>	(1) OF	Total selling price	<u>5 260</u>	(1) OF	7
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Question	Answer	Marks
4(f)	<p>The offer still provides a positive contribution/generates profit (1)</p> <p>This will result in increased overall profits for the business (1) albeit the offer price will not achieve the usual mark up of 25% (1)</p> <p>The order will make use of existing spare capacity (1) which could be used to manufacture goods with a better mark-up (1)</p> <p>Is this a one-off order or will the customer expect future orders at the same price (1). Other customers could also want to buy at a reduced price (1) , and it could cause ill feeling with other customers (1)</p> <p>Decision (1)</p> <p>(1 mark) × any 4 points – Max 4 for comments</p>	5