
ACCOUNTING

9706/22

Paper 2 Structured Questions

May/June 2017

MARK SCHEME

Maximum Mark: 90

Published

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This document consists of **9** printed pages.

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Question	Answer				Marks	
1(a)	\$		\$		17	
	Revenue			563 800		
	Cost of sales					
	Opening inventory	62 400				
	Purchases	<u>268 200</u>				
		330 600				
	Closing inventory	<u>70 300</u>	<u>260 300</u>	(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 <u>73 500</u>	(4)			
	Profit from operations			113 730 (1)OF		
	Finance costs			<u>5 920</u> (1)		
	Profit for the year			<u>107 810</u> 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					

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Question	Answer	Marks																				
1(b)	<p style="text-align: center;">\$</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Current assets</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Inventory</td> <td></td> <td style="text-align: right;">70 300</td> <td></td> </tr> <tr> <td>Trade and other receivables</td> <td style="text-align: right;">W1</td> <td style="text-align: right;">70 820</td> <td style="text-align: right;">(2)</td> </tr> <tr> <td>Cash and cash equivalents</td> <td style="text-align: right;">W2</td> <td style="text-align: right;"><u>10 210</u></td> <td style="text-align: right;">(2)</td> </tr> <tr> <td> Total</td> <td></td> <td style="text-align: right;"> <u>151 330</u></td> <td></td> </tr> </table> <p>Workings</p> <p>W1 Trade and other receivables \$71 000 – \$1420 (1) + \$1240 (1) = \$70 820</p> <p>W2 Cash and cash equivalents \$14 040 + \$26 400 (1) – \$50 000 (1) + \$650 = \$10 210</p> <p>Award 1 mark for presentation / labels</p>	Current assets				Inventory		70 300		Trade and other receivables	W1	70 820	(2)	Cash and cash equivalents	W2	<u>10 210</u>	(2)	 Total		 <u>151 330</u>		5
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 Total		 <u>151 330</u>																				
1(c)	<p>Allowing for depreciation:</p> <p>To comply with the matching / accruals concept (1)</p> <p>Accounts for that part of the asset used up in the accounting period (1)</p> <p>The value of assets falls due to wear and tear, obsolescence, technological change, etc. (1)</p> <p>Avoids overstating the net assets / non-current assets of the business (1)</p> <p>Ensures that the statement of financial position shows a true and fair view (1)</p> <p>Max 4</p>	4																				
1(d)	<p>Differences:</p> <p>Ordinary shares carry voting rights (1), preference shares do not carry voting rights (1)</p> <p>Ordinary shareholders receive a variable dividend (1), preference shareholders receive a fixed rate of dividend (1)</p> <p>Ordinary share dividends are discretionary (1), preference share dividend is mandatory if sufficient profits are available (1)</p> <p>Preference shareholders receive dividend before (1) ordinary shareholders (1)</p> <p>In the event of liquidation preference shareholders are repaid their capital before (1) ordinary shareholders (1)</p> <p>Max 4</p>	4																				

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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: $(54.75 / 365 \times 860\,000 = 129\,000)$ (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: $1042\,500 \times 80\% = 834\,000$ (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

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Question	Answer	Marks
2(e)	<p>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)</p> <p>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)</p> <p>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)</p> <p>1 mark decision Overall max 3 marks justification</p>	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)	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 15%;">Amit</th> <th style="width: 15%;">Wang</th> <th style="width: 15%;">Susi</th> <th style="width: 15%;"></th> <th style="width: 15%;">Amit</th> <th style="width: 15%;">Wang</th> <th style="width: 15%;">Susi</th> </tr> <tr> <th></th> <th>\$</th> <th>\$</th> <th>\$</th> <th></th> <th>\$</th> <th>\$</th> <th>\$</th> </tr> </thead> <tbody> <tr> <td>Goodwill</td> <td></td> <td>21 000</td> <td>21 000</td> <td>Balance b/d</td> <td>40 000</td> <td>40 000</td> <td>40 000</td> </tr> <tr> <td>Loan</td> <td>69 100 (1)OF</td> <td></td> <td></td> <td>Goodwill</td> <td>14 000</td> <td>14 000</td> <td>14 000 (1)*</td> </tr> <tr> <td>Bank</td> <td>15 000 (1)</td> <td></td> <td></td> <td>Current</td> <td>27 600 (1)</td> <td></td> <td></td> </tr> <tr> <td>Balance c/d</td> <td><u> </u></td> <td><u>35 500</u></td> <td><u>35 500</u></td> <td>Revaluation</td> <td><u> 2 500</u></td> <td><u> 2 500</u></td> <td><u> 2 500</u> (1) row (1)</td> </tr> <tr> <td></td> <td><u>84 100</u></td> <td><u>56 500</u></td> <td><u>56 500</u></td> <td></td> <td><u>84 100</u></td> <td><u>56 500</u></td> <td><u>56 500</u></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td>Balance b/d</td> <td></td> <td>35 500</td> <td>35 500 (1) OF row</td> </tr> </tbody> </table> <p>* Goodwill – 1 mark for both debit and credit entries</p>		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	<u> </u>	<u>35 500</u>	<u>35 500</u>	Revaluation	<u> 2 500</u>	<u> 2 500</u>	<u> 2 500</u> (1) row (1)		<u>84 100</u>	<u>56 500</u>	<u>56 500</u>		<u>84 100</u>	<u>56 500</u>	<u>56 500</u>					Balance b/d		35 500	35 500 (1) OF row	6
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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																																																																

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Question	Answer			Marks
4(a)	Sales revenue Variable costs Direct materials Direct labour Production overheads Selling expenses Contribution Fixed costs Production overheads Administration overheads Selling expenses Profit for the quarter	\$ 48 140 38 860 23 200 <u>20 300</u> 20 450 32 250 <u>15 600</u>	\$ 203 000 <u>130 500</u> (1) 72 500 (1)OF <u>68 300</u> (1) <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 Variable costs per unit Contribution per unit Fixed costs	130 500 – (58 000 · \$0.10) – (203 000 · 2%) 120 640/58 000 3.50 – 2.08 68 300 – 12 000	\$ 120 640 (1)OF 2.08 (1)OF 1.42 56 300 (1)OF	4
4(c)(ii)	Proposal B Variable costs Variable costs per unit Contribution per unit Fixed costs To achieve profit	130 500 + (58 000 · \$0.15) + (58 000 · 0.35 · 10%) (1) 141 230/58 000 3.85 – 2.435 68 300 + 5 000 (1) – 12 000 (61 300 + 20 000)/1.415	\$ 141 230 (1)OF 2.435 (1)OF 1.415 61 300 (1)OF 57 456 units (1)OF	6

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Question	Answer	Marks
4(d)	<p>Proposal A Benefits (Max 2)</p> <p>Breakeven point reduces from 54 640 units to 53 733 units Reduced cash outflows on direct materials and administrative expenses</p> <p>Proposal A Drawbacks (Max 2)</p> <p>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</p> <p>Proposal B Benefits (Max 2)</p> <p>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</p> <p>Proposal B Drawbacks (Max 2)</p> <p>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</p> <p>1 mark for recommendation. Overall max 7 marks for benefits and drawbacks</p>	8

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Question	Answer	Marks
4(e)	<p>Advantages:</p> <ul style="list-style-type: none"> 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 <p>Disadvantages:</p> <ul style="list-style-type: none"> 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 <p>1 mark for each valid point</p>	6