



Cambridge International AS & A Level

ACCOUNTING

9706/22

Paper 2 AS Level Structured Questions

March 2020

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.

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This document consists of **7** 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)	S Limited Income Statement for the year ended 31 December 2019 <table><tr><td>Revenue</td><td></td><td>998 400</td><td></td></tr><tr><td>Cost of sales</td><td></td><td></td><td></td></tr><tr><td>Opening inventory</td><td>122 000</td><td></td><td></td></tr><tr><td>Purchases</td><td><u>435 000</u></td><td></td><td></td></tr><tr><td></td><td>557 000</td><td></td><td></td></tr><tr><td>Closing inventory W1</td><td><u>(131 500)</u></td><td>(2)</td><td></td></tr><tr><td></td><td></td><td><u>(425 500)</u></td><td>(1)OF</td></tr><tr><td>Gross profit</td><td></td><td>572 900</td><td>(1)OF</td></tr><tr><td>Deduct</td><td></td><td></td><td></td></tr><tr><td>Administrative expenses W2</td><td>287 500</td><td>(3)</td><td></td></tr><tr><td>Distribution costs</td><td><u>84 475</u></td><td></td><td><u>(371 975)</u></td></tr><tr><td>Profit from operations</td><td></td><td></td><td>200 925 (1)OF</td></tr><tr><td>Finance costs</td><td></td><td></td><td><u>(2 000)</u> (1)</td></tr><tr><td>Profit for the year</td><td></td><td></td><td><u><u>198 925</u></u> (1)OF</td></tr></table> W1 134 200 – 2 700 (1) = 131 500 (1)OF W2 298 875 – 3 875 (1) – 7 500 (1) = 287 500 (1)OF	Revenue		998 400		Cost of sales				Opening inventory	122 000			Purchases	<u>435 000</u>				557 000			Closing inventory W1	<u>(131 500)</u>	(2)				<u>(425 500)</u>	(1)OF	Gross profit		572 900	(1)OF	Deduct				Administrative expenses W2	287 500	(3)		Distribution costs	<u>84 475</u>		<u>(371 975)</u>	Profit from operations			200 925 (1)OF	Finance costs			<u>(2 000)</u> (1)	Profit for the year			<u><u>198 925</u></u> (1)OF	10
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1(b)	Using capital reserves before revenue reserves (1) to facilitate future payments of dividends (1) . Accept other valid responses.	2																																																								
1(c)	Ordinary Share Capital 2019 <table><tr><td>Jan 1</td><td>Balance b/d</td><td>100 000</td><td>(1)</td></tr><tr><td>Oct 31</td><td>Share premium</td><td>20 000</td><td>(1)</td></tr><tr><td>Oct 31</td><td>Retained Earnings.</td><td>5 000</td><td>(1)</td></tr><tr><td>Dec 31</td><td>Balance c/d</td><td><u>125 000</u></td><td></td></tr><tr><td></td><td></td><td><u><u>125 000</u></u></td><td></td></tr><tr><td></td><td></td><td></td><td><u><u>125 000</u></u></td></tr></table> 2020 <table><tr><td>Jan 1</td><td>Balance b/d</td><td>125 000</td><td>(1)OF</td></tr></table>	Jan 1	Balance b/d	100 000	(1)	Oct 31	Share premium	20 000	(1)	Oct 31	Retained Earnings.	5 000	(1)	Dec 31	Balance c/d	<u>125 000</u>				<u><u>125 000</u></u>					<u><u>125 000</u></u>	Jan 1	Balance b/d	125 000	(1)OF	4																												
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Jan 1	Balance b/d	125 000	(1)OF																																																							
1(d)	S Limited Statement of changes in equity for the year ended 31 December 2019 <table><tr><td></td><td>Share Capital</td><td>Share Premium</td><td>Retained Earnings</td><td>Total</td><td></td></tr><tr><td></td><td>\$</td><td>\$</td><td>\$</td><td>\$</td><td></td></tr><tr><td>Jan 1</td><td>100 000</td><td>20 000</td><td>126 230</td><td>246 230</td><td></td></tr><tr><td>Dividend</td><td></td><td></td><td>(8 000) (1)</td><td>(8 000)</td><td></td></tr><tr><td>Bonus</td><td>25 000</td><td>(20 000) (1)</td><td>(5 000) (1)</td><td></td><td></td></tr><tr><td>Profit</td><td></td><td></td><td>198 925 (1)OF</td><td>198 925</td><td></td></tr><tr><td>Dec 31</td><td><u><u>125 000</u></u></td><td><u><u>—</u></u></td><td><u><u>312 155</u></u></td><td><u><u>437 155</u></u></td><td>(1)OF</td></tr></table>		Share Capital	Share Premium	Retained Earnings	Total			\$	\$	\$	\$		Jan 1	100 000	20 000	126 230	246 230		Dividend			(8 000) (1)	(8 000)		Bonus	25 000	(20 000) (1)	(5 000) (1)			Profit			198 925 (1)OF	198 925		Dec 31	<u><u>125 000</u></u>	<u><u>—</u></u>	<u><u>312 155</u></u>	<u><u>437 155</u></u>	(1)OF	5														
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Question	Answer		Marks
1(e)	Debenture (Max 4)	Rights issue (Max 4)	9
	Loan capital – repayable (1)	Permanent capital – not repayable (1)	
	Interest of \$3000 payable annually (1)	Dividend payments discretionary (1)	
	No voting rights for dividend holders (1)	Shareholders have voting rights (1)	
	Increases external borrowings (1)	Increases equity holding (1)	
	Security required (1)	No security required (1)	
	Decision (1) Justification (Max 8)		
	Accept other valid responses.		

Question	Answer	Marks																																																
2(a)(i)	Wear and tear (1) Usage (1) Obsolescence (1) Passage of time (1) Depletion (1) Economic factors (1) Technological changes (1) Accept other valid responses. Max 3	3																																																
2(a)(ii)	Accruals/matching concept (1). The cost of the asset is matched with the income generated over the lifetime of the asset (1). Prudence concept (1). To avoid overstating profits / <u>non-current</u> assets (1).	4																																																
2(b)(i)	Motor vehicles – Provision for depreciation account <table><tr><td>2019</td><td></td><td></td><td></td><td>2019</td><td></td><td></td><td></td></tr><tr><td>Dec 31</td><td>Disposal</td><td>17 500</td><td>(1)</td><td>Jan 1</td><td>Bal b/d</td><td>105 000</td><td>(1)</td></tr><tr><td>Dec 31</td><td>Bal c/d</td><td>113 125</td><td></td><td>Dec 31</td><td>I/S</td><td>25 625</td><td>(3) W1</td></tr><tr><td></td><td></td><td><u>130 625</u></td><td></td><td></td><td></td><td><u>130 625</u></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>2020</td><td></td><td></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>Jan 1</td><td>Bal b/d</td><td>113 125</td><td>(1 of)</td></tr></table> W1: 12 500 (1) + 13 125 (1) = 25 625 (1)OF	2019				2019				Dec 31	Disposal	17 500	(1)	Jan 1	Bal b/d	105 000	(1)	Dec 31	Bal c/d	113 125		Dec 31	I/S	25 625	(3) W1			<u>130 625</u>				<u>130 625</u>						2020								Jan 1	Bal b/d	113 125	(1 of)	6
2019				2019																																														
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				Jan 1	Bal b/d	113 125	(1 of)																																											

Question	Answer								Marks
2(b)(ii)	Disposal account								2
	Dec 31	Cost	40 000	**	Dec 31	Prov for Dep	17 500	**	
					Dec 31	Bank	16 500	** (1)	
					Dec 31	I/S	6 000	(1)	
			<u>40 000</u>				<u>40 000</u>		
	** 1 mark for all three entries.								

Question	Answer	Marks																																																																								
3(a)	They provide a check on the arithmetical accuracy of the balances on the sales and purchases ledger/helps in locating errors (1). The balance on the control account should equal the total of the individual balances (1). Prevents fraud (1). Division of duties – different person working on the control account to the sales and purchases ledger (1). Helps in preparation of financial statements (1). Speedier as total entered in trial balance rather than individual balances (1). Max 6 Accept other valid responses.	6																																																																								
3(b)	Sales ledger control account <table><tr><td>2019</td><td></td><td></td><td></td><td>2019</td><td></td><td></td><td></td></tr><tr><td>Jan 1</td><td>Balance b/d</td><td>45 000</td><td>(1)</td><td>Dec 12</td><td>Ret. Inwards</td><td>2 500</td><td>(1)</td></tr><tr><td>Dec 31</td><td>Sales</td><td>152 000</td><td>(1)</td><td></td><td>Irrec. Debts</td><td>945</td><td>(1)</td></tr><tr><td></td><td>Interest</td><td>65</td><td>(1)</td><td></td><td>Bank</td><td>128 600</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>Disc. Allowed</td><td>1 025</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>Contra</td><td>780</td><td>(1)</td></tr><tr><td></td><td></td><td></td><td></td><td></td><td>Balance c/d</td><td>63 215</td><td></td></tr><tr><td></td><td></td><td></td><td></td><td></td><td></td><td><u>197 065</u></td><td></td></tr><tr><td>Jan 1</td><td>Balance b/d</td><td><u>63 215</u></td><td>(1)OF</td><td></td><td></td><td></td><td></td></tr></table>	2019				2019				Jan 1	Balance b/d	45 000	(1)	Dec 12	Ret. Inwards	2 500	(1)	Dec 31	Sales	152 000	(1)		Irrec. Debts	945	(1)		Interest	65	(1)		Bank	128 600	(1)						Disc. Allowed	1 025	(1)						Contra	780	(1)						Balance c/d	63 215								<u>197 065</u>		Jan 1	Balance b/d	<u>63 215</u>	(1)OF					9
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Question	Answer	Marks
4(a)	Overhead allocation is used when the whole expense is directly related to one department (1) . Overhead apportionment is used when the overhead is related to more than one department (1) .	2
4(b)(i)	A production department is one which is <u>directly</u> involved in manufacturing the products (1) .	1
4(b)(ii)	A service department is one which is not directly involved in manufacturing the products but provides support to other departments (1) .	1

Question	Answer					Marks
4(c)	Overhead	Production Centre 1	Production Centre 2	Service Centre	Total	8
	Rent	9 000	6 000	3 000	18 000 (1) row	
	Heating and lighting	7 500	3 750	1 250	12 500 (1) row	
	Depreciation	7 000	4 200		11 200 (1) row	
	Employee Overheads	4 500	2 500	1 300	8 300 (1) row	
		28 000	16 450	5 550	50 000	
	Service centre re-apportionment	3 700 (1)OF	1 850 (1)OF	(5 550)		
		31 700 (1)OF	18 300 (1)OF			
4(d)	Prod.1 $\frac{31\,700}{4\,000} = \7.93 (1)OF per direct labour hour (1) Prod. 2 $\frac{18\,300}{2\,000} = \9.15 (1)OF per machine hour (1)					4
4(e)	Service centres incur overhead costs and these costs are charged to the product by transferring to the production centres on an appropriate basis (1). To ensure that all costs are recovered in the sale of products (1). Accept other valid responses.					2
4(f)	Not used for short-term decision making (1). Cannot calculate break-even point (1). Can be subjective (1). Accept other valid responses.					3
4(g)	Direct costs (\$2800 + \$3200) Overheads Dept 1 (\$7.93 × 80) Overheads Dept 2 (\$9.15 × 100) Total cost Price to quote \$7 549.40 (OF) × 100/65:				6 000.00 (1) 634.40 (1)OF 915.00 (1)OF <u>7 549.40</u> \$11 614.46 (1)OF	4

Question	Answer	Marks
4(h)	Accept the order (1). There is both a positive contribution (1) and profit / lower profit margin (1) Is there spare capacity? (1) Would acceptance of the order restrict other orders that would be more profitable? (1) Consider whether customer is likely to make more orders (1) and at which price (1). Consider effect on other customers learning of reduced price (1). 1 for decision and max. 4 for discussion.	5