
ACCOUNTING

9706/21

Paper 2 Structured Questions

May/June 2018

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.

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Cambridge Assessment
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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.

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Question	Answer	Marks																																																				
1(a)	Ashir, Bo and Chan Income statement for the year ended 31 December 2016 <table><tr><td></td><td>\$</td><td>\$</td><td>\$</td></tr><tr><td>Gross profit</td><td></td><td></td><td>171 620</td></tr><tr><td>Operating expenses</td><td></td><td>54 560</td><td>(1)</td></tr><tr><td>Staff Wages</td><td></td><td>33 360</td><td>(1)</td></tr><tr><td>Loan interest</td><td></td><td>1 200</td><td>(1)</td></tr><tr><td>Depreciation – Fixtures and fittings</td><td>1 100</td><td></td><td></td></tr><tr><td>Depreciation – motor vehicles</td><td><u>16 000</u></td><td><u>17 100</u></td><td>(1) <u>106 220</u></td></tr><tr><td>Profit for the year</td><td></td><td></td><td><u>65 400</u> (1) OF</td></tr></table>		\$	\$	\$	Gross profit			171 620	Operating expenses		54 560	(1)	Staff Wages		33 360	(1)	Loan interest		1 200	(1)	Depreciation – Fixtures and fittings	1 100			Depreciation – motor vehicles	<u>16 000</u>	<u>17 100</u>	(1) <u>106 220</u>	Profit for the year			<u>65 400</u> (1) OF	5																				
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1(b)	Ashir, Bo and Chan Profit and loss appropriation account for the year ended 31 December 2016 <table><tr><td></td><td>\$</td><td>\$</td><td></td></tr><tr><td>Profit for the year</td><td></td><td>65 400</td><td>(1) OF</td></tr><tr><td>Interest on drawings</td><td>Ashir</td><td>770</td><td></td></tr><tr><td></td><td>Bo</td><td>610</td><td></td></tr><tr><td></td><td>Chan</td><td><u>820</u></td><td>2 200 (1 for all)</td></tr><tr><td>Interest on capital</td><td>Ashir</td><td>(2 400)</td><td></td></tr><tr><td></td><td>Bo</td><td>(1 800)</td><td></td></tr><tr><td></td><td>Chan</td><td><u>(600)</u></td><td>(4 800) (1 for all)</td></tr><tr><td>Salary</td><td>Chan</td><td></td><td><u>(12 000)</u> (1)</td></tr><tr><td>Attributable profit</td><td></td><td></td><td><u>50 800</u></td></tr><tr><td>Divisible</td><td>Ashir</td><td>25 400</td><td></td></tr><tr><td></td><td>Bo</td><td>19 050</td><td></td></tr><tr><td></td><td>Chan</td><td><u>6 350</u></td><td><u>50 800</u> (1 OF for all)</td></tr></table>		\$	\$		Profit for the year		65 400	(1) OF	Interest on drawings	Ashir	770			Bo	610			Chan	<u>820</u>	2 200 (1 for all)	Interest on capital	Ashir	(2 400)			Bo	(1 800)			Chan	<u>(600)</u>	(4 800) (1 for all)	Salary	Chan		<u>(12 000)</u> (1)	Attributable profit			<u>50 800</u>	Divisible	Ashir	25 400			Bo	19 050			Chan	<u>6 350</u>	<u>50 800</u> (1 OF for all)	5
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Question	Answer								Marks
1(c)	Detail Balance b/f Interest on drawings (10F for line) Drawings (1 for line) Balance c/d Balance b/d (10F for line)	Ashir \$ 770 15 400 25 130 41 300 29 050	Bo \$ 610 12 200 16 240 19 820 870	Chan \$ 2 600 820 16 400 19 820 870	Detail Balance b/f Interest on capital (10F for line) Loan interest Salary Profit for the year (10F for line) Balance c/d Balance b/d	Ashir \$ 12 300 2 400 1 200 (1) 25 400 41 300 25 130	Bo \$ 8 200 1 800 19 050 29 050 16 240	Chan \$ 600 12 000 (1) 6 350 870 19 820	7
1(d)	\$ Capital account 10 000 Current account (870) (1)OF Motor vehicle (18 000) (1) Goodwill 15 500 (1) Due to Chan (correct label only) 6 630 (1)OF								4
1(e)	Separate entity Limited liability for owners Ability to raise finance 1 mark for each advantage – maximum 2 marks								

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Question	Answer	Marks
1(f)	Advice Yes he should maintain a full set of accounting records (1) Reasons Advantages (Max 2) Business is growing fast Enables closer monitoring of performance Enables Bilal to control the business performance Enable Bilal to maximise opportunities Disadvantages (Max 2) More time consuming Need to employ specialist staff 1 mark for advice, maximum 2 marks for advantages and max 2 marks for disadvantages	5
1(g)	Minimises possibility of bad debts Independent check on arithmetic accuracy Reduces possibility of fraud Provides instant record of total trade receivables Facilitates preparation of financial statements 1 mark for each benefit – maximum 2 marks	2

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Question	Answer				Marks
2(a)					6
		\$		\$	
	Balance b/d	124 000	Disposal	36 000	
	Bank	28 000	Balance c/d	136 000	
	Disposal	<u>20 000</u>			
		<u>172 000</u>		<u>172 000</u>	
	Balance b/d	136 000	(1)OF		
	Motor vehicles provision for depreciation				
		\$		\$	
	Disposal	15 750	Balance c/d	54 250	
	Balance c/d	<u>62 875</u>	Income statement W1	<u>24 375</u>	(1) OF
		<u>78 625</u>		<u>78 625</u>	
			Balance b/d	62 875	(1) OF
	Disposal of non-current assets				
		\$		\$	
	Motor vehicle at cost	36 000	Motor vehicle at cost	20 000	
			Motor vehicle provision for depreciation	15 750	(1)
			Income statement	<u>250</u>	(1) OF
		<u>36 000</u>		<u>36 000</u>	
	W1: 136 000 – (54 250 – 15 750) × 25% = \$24 375				

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Question	Answer	Marks
2(b)	Depreciation for the year ended 31 December 2015 would be \$27 200 using the straight-line method, but \$24 375 using the reducing balance method (1). The loss on sale of the motor vehicle would be \$1 600 ($36\,000 - 20\,000 - 14\,400$) using the straight-line method, compared to \$250 using the reducing balance method (1of). Using straight line depreciation $27\,200 + \text{loss } 1600 = \\$28\,800$ (1) Using reducing balance method $24\,375 + \text{loss } 250 = \\$24\,625$ (1) Profit for the year would be reduced by \$4 175 ($\\$28\,800 - \\$24\,625$) if using the straight-line method (1of).	5
2(c)	Accruals / matching concept (1). The cost of using the asset should be matched to the time period of income earned by the asset (1). Prudence (1). Spreading the cost of an asset over its useful life avoids overstating annual profits / value of assets (1). Consistency (1). Enables valid comparison. (1) Max 4	4

Question	Answer	Marks
3(a)(i)	Current ratio $63\,580 / 28\,760$ (1) = 2.21 : 1 (1)	2
3(a)(ii)	Liquid (Acid) test ratio $5\,480 / 28\,760$ (1) = 0.89 : 1 (1)	2
3(a)(iii)	Rate of inventory turnover $265\,400 / 42\,150 = 6.30$ times per year (1) OF Workings: $331\,750 / 100 \times 80$ (1) = 265 400 (1)	3

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Question	Answer	Marks
3(b)	Yuan has the higher current ratio (1) and liquid (acid) test ratio (1) Ravi has a negative liquid (acid) test ratio (1) therefore he would be less able to pay promptly (1) as he has more of his current assets tied up in inventory (1) She would need to consider that Yuan has more assets lying idle and so he may not be as efficient. (1) She should try to discover more about their long term assets and liabilities (1) Decision (1) mark Justification Max 4 marks	5
3(c)	Historic Window dressing Different accounting policies Different year end Different sizes 1 mark for each point to a max of 3 Accept other valid points	3

Question	Answer	Marks																					
4(a)	<table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Direct labour</td><td>38 500</td><td></td></tr> <tr> <td>Direct material</td><td>24 750</td><td></td></tr> <tr> <td>Variable factory cost (13 750 – 5 500)</td><td><u>8 250</u></td><td></td></tr> <tr> <td></td><td><u>71 500</u></td><td>(1)</td></tr> <tr> <td></td><td></td><td>÷ 11 000 units = \$6.50 per unit (1)</td></tr> <tr> <td>or</td><td>\$84 500</td><td>÷ 13 000 units = \$6.50 per unit</td></tr> </table>		\$		Direct labour	38 500		Direct material	24 750		Variable factory cost (13 750 – 5 500)	<u>8 250</u>			<u>71 500</u>	(1)			÷ 11 000 units = \$6.50 per unit (1)	or	\$84 500	÷ 13 000 units = \$6.50 per unit	2
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Question	Answer	Marks
4(b)	<u>Year 1</u> \$ Revenue (10 000 × \$18) 180 000 Variable production cost (10 000 (1) × \$6.50) (65 000) Variable selling costs (180 000 × 5%) <u>(9 000)</u> Contribution <u>106 000</u> (1)OF <u>Year 2</u> \$ (11 000 × \$18) 198 000 (11 000 (1) × \$6.50) (71 500) (198 000 × 5%) <u>(9 900)</u> <u>116 600</u> (1)OF (1) both (1)OF both (1)OF Alternative layout <u>Year 1</u> Per unit \$ Selling price 18 (1) Variable production costs <u>(6.50)</u> 11.50 × 10 000 (1) = 115 000 Variable selling costs <u>(9 000)</u> Contribution <u>106 000</u> (1)OF <u>Year 2</u> \$ × 11 000 (1) = 126 500 <u>(9 900)</u> (1)OF both <u>116 600</u> (1)OF	6

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Question	Answer	Marks																								
4(c)	<table> <thead> <tr> <th></th><th>Year 1</th><th>Year 2</th></tr> <tr> <th></th><th>\$</th><th>\$</th></tr> </thead> <tbody> <tr> <td>Direct labour</td><td>38 500</td><td>45 500</td></tr> <tr> <td>Direct material</td><td>24 750</td><td>29 250</td></tr> <tr> <td>Factory cost</td><td><u>13 750</u></td><td><u>15 250</u></td></tr> <tr> <td></td><td>\$77 000</td><td>\$90 000</td></tr> <tr> <td></td><td>÷ 11 000 Units</td><td>÷ 13 000</td></tr> <tr> <td>=</td><td>\$7 Per unit (1)</td><td>\$6.92 Per unit (1)</td></tr> </tbody> </table>		Year 1	Year 2		\$	\$	Direct labour	38 500	45 500	Direct material	24 750	29 250	Factory cost	<u>13 750</u>	<u>15 250</u>		\$77 000	\$90 000		÷ 11 000 Units	÷ 13 000	=	\$7 Per unit (1)	\$6.92 Per unit (1)	2
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4(d)	It is more time consuming to calculate the overhead absorption rate and adjust for over / under absorption. It is more complicated to calculate and managers may need training. It is irrelevant in short term decision making as fixed costs don't change. Fixed costs relate to a period in time and so can be misleading to charge to production units. The basis used to apportion and absorb overheads may be arbitrary. (1 mark) × any two limitations Max 2	2																								

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Question	Answer					Marks
4(e)	Year 1 \$ Year 2 \$ Revenue (10 000 × \$18) 180 000 (11 000 × \$18) 198 000 (1) row Production cost (10 000 × \$7) (70 000)(1)OF (1 000 × \$7) (7 000)(1)OF (10 000 × \$6.92) (69 200)(1)OF Selling costs: – variable (180 000 × 5%) (9 000) (198 000 × 5%) (9 900) (1) row – fixed (3 500) (3 500 × 102%) (3 570) (1) row Profit <u>97 500</u> <u>108 330</u> (1)OF row Alternative layout Year 1 \$ Year 2 \$ Revenue (10 000 × \$18) 180 000 (11 000 × \$18) 198 000 (1) row Opening inventory – – (1 000 × \$7) 7 000 (1)OF Purchases (11 000 × \$7) 77 000 (13 000 × \$6.92) 89 960 } (1)OF } both Closing inventory (1 000 × \$7) (7 000) (3 000 × \$6.92) (20 760)} Production cost (70 000)(1)OF (76 200) Selling costs: – variable (180 000 × 5%) (9 000) (198 000 × 5%) (9 900)(1) row – fixed (3 500) (3 500 × 102%) (3 570)(1) row Profit <u>97 500</u> <u>108 330</u> (1)OF row					7

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Question	Answer	Marks																																		
4(f)	Using marginal costing Closing inventory is valued at variable production cost and so shows a lower closing inventory value. (1) Fixed overheads are treated as period costs (1) and are written off in the period's income statement. (1) Using absorption costing Closing inventory is valued at full production cost and so shows a higher closing inventory value. (1) Fixed overheads are treated as part of production costs (1) and are carried forward as part of the inventory value. (1) Max 3	3																																		
4(g)	Calculation if variable selling expenses excluded (they remain the same) Workings <table><tr><td></td><td>Lost order in year 1</td><td></td><td>Replacement order</td></tr><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Selling price</td><td>18</td><td>(\$18 × −7.5%)</td><td>16.65</td></tr><tr><td>Variable production cost</td><td><u>− 6.50</u></td><td></td><td><u>− 6.65</u> *</td></tr><tr><td>Contribution</td><td>11.50</td><td>× 3 000 units = \$34 500</td><td>10.00 × 3 000 units = \$30 000</td></tr></table> * <table><tr><td>Variable production cost</td><td>6.50</td></tr><tr><td>Additional direct labour</td><td><u>0.15</u></td></tr><tr><td></td><td><u>6.65</u></td></tr></table> Change in budgeted profit: <table><tr><td></td><td>\$</td></tr><tr><td>Loss of contribution</td><td>\$34 500 − \$30 000 = (4 500) (1)</td></tr><tr><td>Increase in advertising costs</td><td><u>(1 000)</u> (1)</td></tr><tr><td>Decrease in profit</td><td><u>(5 500)</u> (1)OF</td></tr></table>		Lost order in year 1		Replacement order		\$		\$	Selling price	18	(\$18 × −7.5%)	16.65	Variable production cost	<u>− 6.50</u>		<u>− 6.65</u> *	Contribution	11.50	× 3 000 units = \$34 500	10.00 × 3 000 units = \$30 000	Variable production cost	6.50	Additional direct labour	<u>0.15</u>		<u>6.65</u>		\$	Loss of contribution	\$34 500 − \$30 000 = (4 500) (1)	Increase in advertising costs	<u>(1 000)</u> (1)	Decrease in profit	<u>(5 500)</u> (1)OF	3
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Question	Answer	Marks
4(h)	Proceed or not (1) The campaign will result in a loss of profit but will still have positive contribution. How short term is the price decrease / is it only for this one order? Will it affect year 2 profits? Will fixed costs be covered in the long term? Will the increase in advertising be enough to generate the expected level of demand? What will the existing customers reactions be to the price decrease for new customers? If they do not get new customers: What will the morale of the existing workers be like after staff reduction? Will the quality of the goods go down if there are fewer workers? How temporary will the loss of staff be? Will Zinan be able to re-recruit the skilled staff in year 2 when new orders come in? At what extra cost? (1 mark) × any 4 considerations Max 5	5