Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

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.

Cambridge International will not enter into discussions about these mark schemes.

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This document consists of **12** printed pages.

Cambridge Assessment International Education

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.

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(a)</td><td>Responses could include:

Profits will be shared in the partnership (1), whereas sole traders would be entitled to all the profits (1).
Decision making may take longer as both partners will need to agree (1), whereas sole traders can make instant decisions (1).
There is the risk of disagreement/conflict between partners (1), whereas sole traders would make decisions on their own (1).
Each partner’s actions are binding on all partners (1), whereas a sole trader has to account to no other parties for his actions (1)
Control of the business by each partner maybe difficult (1) whereas the sole trader retains control over the business (1).

1 mark for identification + 1 mark for development. Max 3 advantages.</td><td>6</td></tr>
<tr><td>1(b)</td><td>Cherie and Harry
Income statement for the year ended 30 June 2017
<table>
<tr><td></td><td>$</td><td></td><td>$</td><td></td></tr>
<tr><td>Gross profit</td><td></td><td></td><td>40 960</td><td></td></tr>
<tr><td>Less inventory adjustment</td><td></td><td></td><td>(380)</td><td>(1)</td></tr>
<tr><td>Revised gross profit</td><td></td><td></td><td>40 580</td><td></td></tr>
<tr><td>Less</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Operating expenses W1</td><td>26 090</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Depreciation W2</td><td>8 400</td><td>(1)</td><td></td><td></td></tr>
<tr><td>Loan interest W3</td><td>640</td><td>(1)</td><td></td><td></td></tr>
<tr><td></td><td></td><td></td><td>(35 130)</td><td></td></tr>
<tr><td>Profit for the year</td><td></td><td></td><td>5 450</td><td>(1) OF</td></tr>
</table>
W1 Operating expenses: $28 390 – prepayment (2/3 × $3450) = $26 090
W2 Depreciation: 20% × ($64 000 – $22 000) = $8400
W3 Loan interest: 8% × $8000 = $640

Marks are for figures and position.</td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(c)</td><td>

Cherie and Harry
Appropriation Account for the year ended 30 June 2017

	$		$
Profit for the year			5 450
Add interest on drawings			
Cherie	310		
Harry	240	**(1) for both**	
			550
			6 000
Less interest on capital **W1**			
Cherie	(4 200)		
Harry	(2 800)	**(1) for both**	
			(7 000)
			(1 000)
Share of loss **W2**			
Cherie	(600)	**(2)OF / (1)OF for both**	
Harry	(400)		
			(1 000)

W1 Interest on capitals:
Cherie 10% × $42 000 = $4200
Harry 10% × $28 000 = $2800

W2 Shares of residual loss: ratio is Cherie:
Harry $42 000 : $28 000, i.e. 3 : 2

Cherie $\frac{3}{5}$ × $1 000 = £600

Harry $\frac{2}{5}$ × $1 000 = $400

</td><td>4</td></tr>
</table>

Question	Answer	Marks
1(d)	*(see Current Accounts below)*	6

Current Accounts

	Cherie	Harry			Cherie	Harry	
	$	$			$	$	
Balance b/d		2 430		Balance b/d	1 470		
Drawings	18 300	16 820	**(1)**	Interest on loan	640		**(1)OF**
Interest on drawings	310	240	**(1)OF**	Interest on capital	4 200	2 800	**(1)OF**
Residual loss	600	400	**(1)OF**	Balances c/d	12 900	17 090	
	19 210	19 890			19 210	19 890	
Balances b/d	12 900	17 090	**(1)OF**				

Question	Answer	Marks
1(e)	**Non-current asset turnover** The non-current asset turnover ratio has improved from being weaker than the industry average to being better than the industry average **and/or** has also improved on the previous year **(1).** The partnership may have purchased new and improved non-current assets **and/or** are using existing non-current assets more efficiently. **(1)** **Trade payables turnover** The partnership is now paying suppliers faster than in the previous year **and/or** quicker than the industry average **(1)** Whilst this may have been good for the supplier liquid funds that could have been used for other purposes are being used unnecessarily. **(1)** **Accept other valid responses. Max 2 marks for each ratio.**	4

Question	Answer	Marks
1(f)	Responses could include: **Advertising campaign** May raise public perception **(1)** May increase sales of the business **(1)** Would incur costs **(1)** **Reducing inventory levels** Would lead to an increase in the rate of inventory turnover **(1)** Would reduce the risk of obsolete/damaged inventory **(1)** Would reduce customer choice/danger of not being able to fulfil orders **(1)** **Award up to 2 marks for justification on each course of action and 1 mark for a decision.** **Accept other valid responses**.	**5**

Question	Answer	Marks
2(a)	M Limited	**6**

Statement of changes in equity for the year ended 31 August 2017

	Ordinary share capital		Share premium	Revaluation reserve		Retained earnings	
	$		$	$		$	
Balance at 1 September 2016	200 000		80 000	40 000		37 500	
Rights issue	80 000	**(1)**	48 000	**(1)**			
Interim dividend paid						(44 800)	**(1)OF for row**
Revaluation				(40 000)	**(1)**	(8 000)	**(1)**
Profit for the year						22 500	**(1)**
Balance at 31 August 2017	280 000		128 000	–		7 200	

Question	Answer	Marks
2(b)	Responses could include: To retain reserves in the most distributable or flexible form **(1)** Revenue reserves are needed to fund the payment of dividends **(1)**	**2**
2(c)(i)	Quicker and cheaper than a new share issue **(1)** More likely to be fully subscribed than a new share issue **(1)** Results in a cash inflow **(1)** Does not have to be repaid **(1)** Would avoid any dilution of ownership **(1)** **Max 2** **Accept other valid points.**	**2**
2(c)(ii)	Can lead to a fall in the share price **(1)** **Accept other valid points.**	**1**
2(d)	**Long-term bank loan** Interest on loan is fixed **(1)** whereas dividends are discretionary **(1)** Ownership remains the same therefore **(1)** No loss of control to existing shareholders **(1)** Funds received quicker **(1)** than a share issue **(1)** Repayments are fixed **(1)** enabling future planning **(1)** **1 mark for identification + 1 mark for development** **Accept other valid responses**	**4**

Question	Answer	Marks
3(a)(i)	Plant and machinery at cost | | $ | | $ | Balance b/d 195 000 | Disposal 35 000 **(1)** Bank 42 000 **(1)** | Balance c/d 202 000 237 000 | 237 000 Balance b/d 202 000 **(1)OF**	**3**
3(a)(ii)	Provision for depreciation on plant and machinery | $ | | $ | Disposal 7 000 **(1)** | Balance b/d 68 250 Balance c/d 89 400 | Income statement 28 150 **(1)OF** 96 400 | 96 400 | Balance b/d 89 400 **(1)OF**	**3**
3(b)	Responses could include: Plant and machinery often loses more value in the earlier years of its life **(1)** due to usage **(1)** and maintenance costs may be higher in the later years **(1)**	**3**
3(c)	It is written off as an expense **(1)** If the cost of the item is not material **(1)** The revaluation method should be used **(1)** If the cost is significant **(1)**	**4**
3(d)	Prudence **(1)** Not over-state the value of non-current assets or profit **(1)** **or** Consistency **(1)** Using the same depreciation method each year to assist comparisons **(1)** **or** Accruals/matching **(1)** To match the cost with the income earned by the asset **(1)**	**2**

Question	Answer	Marks
4(a)	see below	**8**

	Total	Accommodation	Leisure	Conferences	Support	
	$	$	$	$	$	
Labour cost	345 000	194 000	86 000	60 000	5000	
Food & materials	81 000	42 000	11 000	26 000	2000	
Rent and rates	86 000	53 750	8600	21 500	2150	**(1) row**
Light and heat	48 000	22 400	12 800	9600	3200	**(1) row**
Advertising	40 000	24 000	6000	10 000	–	**(1) row**
Equipment depreciation	60 000	10 000	45 000	5000	–	**(1) row**
Office costs	150 000	90 000	22 500	37 500	–	**(1) row**
Total apportioned overheads	810 000	436 150	191 900	169 600	12 350	**(1)OF row**
Reapportionment of Support		7410	1852	3088	(12 350)	**(1)OF row**
Total		443 560	193 752	172 688	–	**(1)OF row**

Question	Answer	Marks
4(b)	see below	**3**

	Accommodation	Leisure	Conferences
	$	$	$
Total overheads	443 560	193 752	172 688
Budgeted guest days	12 000	3 000	5 000
Overhead absorption rate per guest day	$36.96 **(1) OF**	$64.58 **(1) OF**	$34.54 **(1) OF**

Question	Answer	Marks
4(c)	see below	**6**

	Accommodation	Leisure	Conferences
	$	$	$
Actual costs	522 000	215 000	196 000
Absorbed			
Accommodation (36.96 × 13 200)	487 872		
Leisure (64.58 × 3 600)		232 488	
Conferences (34.54 × 5 800)			200 332
Under/over absorbed	34 128 **(1)OF** Under **(1)OF**	17 488 **(1)OF** Over **(1)OF**	4 332 **(1)OF** Over **(1)OF**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(d)</td><td>
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Accommodation</td><td>4 × 36.96</td><td>147.84</td><td rowspan="4">(1)OF</td></tr>
<tr><td>Leisure</td><td>1 × 64.58</td><td>64.58</td></tr>
<tr><td>Conferences</td><td>3 × 34.54</td><td>103.62</td></tr>
<tr><td></td><td></td><td>316.04</td></tr>
<tr><td></td><td></td><td>X5</td><td>(1)</td></tr>
<tr><td></td><td></td><td>1 580.20</td><td></td></tr>
<tr><td>Profit</td><td></td><td>2 370.30</td><td>(1)OF</td></tr>
<tr><td>Price to quote</td><td></td><td>3 950.50</td><td>(1)OF</td></tr>
</table>
Alternative presentation
<table>
<tr><td></td><td></td><td>$</td><td></td></tr>
<tr><td>Accommodation</td><td>5 × 4 × 36.96</td><td>739.20</td><td></td></tr>
<tr><td>Leisure</td><td>5 × 1 × 64.58</td><td>322.90</td><td></td></tr>
<tr><td>Conferences</td><td>5 × 3 × 34.54</td><td>518.10</td><td></td></tr>
<tr><td>Total costs</td><td></td><td>1 580.20</td><td>(2)OF</td></tr>
<tr><td>Profit</td><td></td><td>2 370.30</td><td>(1)OF</td></tr>
<tr><td>Price to quote</td><td></td><td>3 950.50</td><td>(1)OF</td></tr>
</table>
</td><td>4</td></tr>
<tr><td>4(e)</td><td>Responses could include:
Price will still be lower than competitor (1)OF which will result in increased profits (1)OF
Increased accommodation prices may reduce the demand for Leisure and Conferences (1) and may affect overall occupancy rates (1)
May affect the reputation of the hotel and leisure complex (1) resulting in lost customers (1)

Decision (1) plus 1 mark for identification plus 1 mark for development</td><td>5</td></tr>
</table>

Question	Answer	Marks
4(f)	Enables **planning** for the future **(1)** Encourages **co-ordination/communication (1)** Provides a framework for **responsibility accounting (1)** Enables **variance analysis** ensuring control **(1)** Encourages **motivation** of employees **(1)** **Max 2 marks** **Accept other valid points.**	**2**
4(g)	Based on estimates **(1)** Unrealistic budgets may de-motivate employees **(1)** May discourage innovation **(1)** **Max 2 marks** **Accept other valid points.**	**2**