
ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 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 **11** printed pages.



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)	Enables the preparation of financial statements (1) Enables the monitoring of performance (1) Improves accuracy and reduces errors (1) Reduces fraud (1) Accept other valid responses. Max 2 marks	2
1(b)	Prepayments: Deducted from expenses (1) and shown as a current asset (1) OR Added to income (1) and shown as a current liability (1) Accruals: Added to expenses (1) and shown as a current liability (1) OR Deducted from income (1) and shown as a current asset (1) Max 2 for each.	4

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Question	Answer	Marks																																
1(c)	<table><tr><td></td><td>\$</td><td></td><td>\$</td></tr><tr><td>Total sales</td><td></td><td></td><td>82 500</td></tr><tr><td>Cost of sales</td><td></td><td></td><td></td></tr><tr><td>Opening inventory</td><td>16 250</td><td></td><td></td></tr><tr><td>Total purchases</td><td>62 750</td><td></td><td></td></tr><tr><td>Stolen inventory (W1)</td><td>(2 850) (1)</td><td></td><td></td></tr><tr><td>Closing inventory (W2) W(</td><td><u>(10 150) (2)</u></td><td><u>66 000 (1)</u></td><td></td></tr><tr><td>Gross profit</td><td></td><td><u>16 500 (1) OF</u></td><td></td></tr></table> (W1) 66 000 + 10 150 – 62 750 – 16 250 = 2 850 (1) (W2) 66 000 / 5 × 2 – 16 250 = 10 150 (1) Use of formula (1)		\$		\$	Total sales			82 500	Cost of sales				Opening inventory	16 250			Total purchases	62 750			Stolen inventory (W1)	(2 850) (1)			Closing inventory (W2) W(	<u>(10 150) (2)</u>	<u>66 000 (1)</u>		Gross profit		<u>16 500 (1) OF</u>		5
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1(e)	9925 + (625 – 775) (1) (–350 + 425) (1) = 9850	2																																

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Question	Answer	Marks
1(f)	Current ratio has worsened (by 1.4: 1) Current ratio was too high and suggested wasted resources Current ratio now is too low and would not have to get much worse before liabilities could not be paid Acid test ratio has worsened (by 0.6: 1) Acid test ratio is now below 1: 1 and so cannot pay debts without relying on using inventory. Inventory is a problem as it may be difficult to convert into cash 1 mark for identification and 1 mark for development Max 2 for current ratio and Max 2 for acid test ratio	4
1(g)	The supplier may have difficulty receiving payments from Marco (1) based on his liquidity position (1) The supplier would have an increased risk of irrecoverable debts, (1) which would reduce profits (1) The supplier would need strict credit control procedures (1) which increases costs (1) The supplier could consider supplying on a cash only basis (1) or on a prepayment basis (1) Marco could become a regular customer (1) Advice (1) Max 4 marks	5

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Question	Answer	Marks																																																																		
2(a)	Prudence non-current assets would be overstated (1), the profit would be overstated (1) Accruals (matching) the cost of using a non-current asset should be matched (1) against the benefits that the asset produces (1)	4																																																																		
2(b)	T Limited Provision for depreciation on plant and machinery <table><tr><td></td><td></td><td>\$</td><td></td><td></td><td>\$</td></tr><tr><td>2017</td><td></td><td></td><td>2017</td><td></td><td></td></tr><tr><td>July 1</td><td>Disposal</td><td>11 250</td><td>Jul 1</td><td>Balance b/d</td><td>48 700</td></tr><tr><td>2018</td><td></td><td></td><td>2018</td><td></td><td></td></tr><tr><td>Jun 30</td><td>Balance c/d</td><td>68 860</td><td>Jun 30</td><td>Income statement</td><td>31 410</td></tr><tr><td></td><td></td><td><u>80 110</u></td><td></td><td></td><td><u>80 110</u></td></tr><tr><td></td><td></td><td></td><td>2018</td><td></td><td></td></tr><tr><td></td><td></td><td></td><td>Jul 1</td><td>Balance b/d</td><td>68 860</td></tr></table> Workings W1: <table><tr><td></td><td>\$</td><td></td></tr><tr><td>Cost</td><td>174 300</td><td></td></tr><tr><td>Depreciation</td><td><u>48 400</u></td><td></td></tr><tr><td></td><td>125 600</td><td></td></tr><tr><td>Disposal</td><td><u>20 000</u></td><td></td></tr><tr><td></td><td>105 600</td><td>(1) × 20% = 21 120 (1) OF</td></tr></table> Oct 1 2017 – Jun 30 2018 \$68 600 × 20% × $\frac{9}{12}$ (1) = 10 290 (1) OF \$21 120 + \$10 290 = 31 410 (1) OF			\$			\$	2017			2017			July 1	Disposal	11 250	Jul 1	Balance b/d	48 700	2018			2018			Jun 30	Balance c/d	68 860	Jun 30	Income statement	31 410			<u>80 110</u>			<u>80 110</u>				2018						Jul 1	Balance b/d	68 860		\$		Cost	174 300		Depreciation	<u>48 400</u>			125 600		Disposal	<u>20 000</u>			105 600	(1) × 20% = 21 120 (1) OF	8
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2(c)	Bank would have increased by \$68 600 (1) , current liabilities would have increased by the same amount. (1) There would be no change in the value of depreciation/non-current assets (1)	3

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3(a)	<table><tr><td></td><td></td><td></td><td>\$</td><td></td></tr><tr><td></td><td>Premises</td><td>Surplus</td><td>29 000</td><td>(1)</td></tr><tr><td></td><td>Inventory</td><td>Deficit</td><td><u>(1 200)</u></td><td>(1)</td></tr><tr><td></td><td>Profit on revaluation</td><td></td><td><u>27 800</u></td><td>(1)</td></tr></table>								\$			Premises	Surplus	29 000	(1)		Inventory	Deficit	<u>(1 200)</u>	(1)		Profit on revaluation		<u>27 800</u>	(1)	3																
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3(c)	Partners increase capital (1) Partners reduce/not taking drawings/salaries (1) Partners introduce a loan (1) New partner introduced (1) Sale of surplus non-current asset (1) Loan from family members (1) Accept other valid responses. Max 3 marks					3																																				

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Question	Answer	Marks
3(d)	Interest on capital (1) Interest on drawings (1) Partners' salaries (1)	3

Question	Answer	Marks
4(a)	Fixed overheads ($200\,000 \times 2$) = \$400 000 Contribution ($20 - 8 - 5 - 3$) = \$4.00 (1) Breakeven point = $\frac{400\,000}{4}$ = 100 000 units (1) OF	2
4(b)	$\begin{array}{rcl} & \\$ & \\ \text{Contribution (200 000} \times 4) & = & 800\,000 \text{ (1) OF} \\ \text{Fixed costs} & & 400\,000 \\ \text{Profit} & \underline{\hspace{1cm}} & 400\,000 \text{ (1) OF} \end{array}$	2
4(c)	$\begin{array}{rcl} & \\$ & \\$ \\ \text{Sales} & 300\,000 \times 18 & 5\,400\,000 \text{ (1)} \\ \text{Direct materials} & 300\,000 \times 7 & 2\,100\,000 \text{ (1)} \\ \text{Direct labour} & 250\,000 \times 5 & 1\,250\,000 \text{ (1)} \\ \text{Direct labour} & 50\,000 \times 6.25 & 312\,500 \text{ (1)} \\ \text{Variable overheads} & 300\,000 \times 3 & 900\,000 \text{ (1)} \\ \text{Total variable costs} & & \underline{4\,562\,500} \\ \text{Contribution} & & 837\,500 \text{ (1) OF} \\ \text{Fixed overheads} & 300\,000 \times 1.40 & 420\,000 \text{ (1)} \\ \text{Budgeted profit} & & \underline{417\,500} \text{ (1) OF} \end{array}$	8

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Question	Answer	Marks
4(d)	Contribution $\frac{837\,500}{300\,000} = 2.79$ Break-even point = $\frac{420\,000 \text{ (1)}}{2.79} = 150\,538 \text{ units (1) OF}$ (Accept a range of units)	2
4(e)	$300\,000 - 150\,538 \text{ (1) OF} = 149\,462 \text{ units}$ $\left(\frac{149\,462}{300\,000}\right) \times 100 = 49.82\% \text{ (1) OF}$	2
4(f)	Positive (max 3) Margin of safety is high at 49.82% (1) Budgeted profit shows an increase of \$17 500 (1) Will increase market share (1) Factory will be working at 100% capacity (1) Negative (max 3) How reliable are the directors' estimates? (1) Will competitors reduce their price affecting the estimated sales growth? (1) Will employees be willing to work the overtime? (1) Will quality suffer because of working overtime? (1) Overall max (4) for comments Decision (1)	5

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Question	Answer	Marks
4(g)	Will new supplier offer the same quantity discount? (1) How certain is the possibility of the shortfall? (1) Will the quality of the material from the new supplier be acceptable? (1) How reliable will the new supplier be? (1) How long will new supplier maintain the same price? (1) Will the new supplier offer the same credit terms? (1) Accept other valid responses. Max 3 marks	3
4(h)(i)	Allocation. Charging overheads/costs to a specific cost centre (1) where those overheads are clearly identified with that cost centre. (1)	2
4(h)(ii)	Apportionment. Charging overheads/costs that cannot be clearly identified with a specific cost centre (1) , to cost centres on an appropriate basis. (1)	2
4(h)(iii)	Absorption. Where the total of allocated and apportioned overheads/costs (1) is charged to units of production. (1)	2