
ACCOUNTING

9706/21

Paper 2 Structured Questions

October/November 2019

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 **13** printed pages.



Cambridge Assessment
International Education

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)	AB Limited Income statement for the year ended 31 December 2018 \$ <table><tr><td>Revenue</td><td>W1</td><td>662 100</td><td>(1)</td></tr><tr><td>Cost of sales</td><td>W2</td><td><u>(306 300)</u></td><td>(2)</td></tr><tr><td>Gross profit for the year</td><td></td><td>355 800</td><td></td></tr><tr><td>Administrative expenses</td><td>W3</td><td>(117 000)</td><td>(3)</td></tr><tr><td>Distribution costs</td><td>W4</td><td><u>(195 600)</u></td><td>(3)</td></tr><tr><td>Profit from operations</td><td></td><td>43 200</td><td></td></tr><tr><td>Finance costs (2 200 + 4 000)</td><td></td><td><u>(6 200)</u></td><td>(1)</td></tr><tr><td>Profit for the year</td><td></td><td><u>37 000</u></td><td></td></tr></table> Workings W1 Revenue 670 400 – 8 300 = 662 100 (1) W2 Cost of sales 56 500 + 310 600 + 12 00 (1) – 62 000 = 306 300 (1) OF W3 Administrative expenses <table><tr><td>Per balances</td><td>111 700</td><td></td></tr><tr><td>Buildings depreciation (80 000 × 2% × 25%)</td><td>400</td><td>(1)</td></tr><tr><td>Provision for doubtful debts ((92 400 – 400 – 2 000) × 5%)</td><td>4 500</td><td>(1)</td></tr><tr><td>Irrecoverable debt written off</td><td><u>400</u></td><td>(1)</td></tr><tr><td></td><td><u>117 000</u></td><td></td></tr></table> W4 Distribution costs <table><tr><td>Per balances</td><td>184 800</td><td></td></tr><tr><td>Buildings depreciation (80 000 × 2% × 75%)</td><td>1 200</td><td>(1)</td></tr><tr><td>Warehouse F & F depreciation ((12 900 – 8 900) × 10%)</td><td>400</td><td>(1)</td></tr><tr><td>Motor vehicles depreciation (46 000 × 20%)</td><td><u>9 200</u></td><td>(1)</td></tr><tr><td></td><td><u>195 600</u></td><td></td></tr></table>	Revenue	W1	662 100	(1)	Cost of sales	W2	<u>(306 300)</u>	(2)	Gross profit for the year		355 800		Administrative expenses	W3	(117 000)	(3)	Distribution costs	W4	<u>(195 600)</u>	(3)	Profit from operations		43 200		Finance costs (2 200 + 4 000)		<u>(6 200)</u>	(1)	Profit for the year		<u>37 000</u>		Per balances	111 700		Buildings depreciation (80 000 × 2% × 25%)	400	(1)	Provision for doubtful debts ((92 400 – 400 – 2 000) × 5%)	4 500	(1)	Irrecoverable debt written off	<u>400</u>	(1)		<u>117 000</u>		Per balances	184 800		Buildings depreciation (80 000 × 2% × 75%)	1 200	(1)	Warehouse F & F depreciation ((12 900 – 8 900) × 10%)	400	(1)	Motor vehicles depreciation (46 000 × 20%)	<u>9 200</u>	(1)		<u>195 600</u>		10
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Question	Answer	Marks
1(b)	AB Limited Statement of financial position at 31 December 2018 \$ Non-current assets Land 65 000 Buildings (80 000 – 28 800 – 1 600) 49 600 (1) Motor vehicles (46 000 – 9 200 – 9 200) 27 600 (1) Warehouse fixtures and fittings (12 900 – 8 900 – 400) 3 600 (1) <u>145 800</u> Current assets Inventory 62 000 Trade and other receivables (92 400 – 400 – 4 500) 87 500 (1) <u>149 500</u> Total assets <u>295 300</u> Equity and liabilities Share capital and reserves Share capital (\$1 ordinary shares) 80 000 Share premium 35 000 Retained earnings (19 100 + 37 000 (1) OF – 1 700 (1)) 54 400 <u>169 400</u> Non-current liabilities 6% debentures <u>80 000 (1)</u> Current liabilities Trade and other payables (36 600 + 4 000) 40 600 (1) Cash and cash equivalents 5 300 (1) <u>45 900</u> Total equity and liabilities <u>295 300</u>	9

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Question	Answer	Marks
1(c)	Rights issue (max 2) Payment of dividends is discretionary (1) Permanent capital (1) Will rights issue be fully subscribed (1) Debenture (max 2) Would increase (non-current) liabilities (1) Debenture interest must be paid (1) Security maybe required (1) Advice (1) Accept other valid points.	5
1(d)	Shareholders (1) Directors/employees (1) Accept other valid points.	2
1(e)(i)	Gross margin (1) Profit margin (1) Return on capital employed (1) Expenses to revenue ratio (1) Max 2	2

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Question	Answer	Marks
1(e)(ii)	Current ratio (1) Liquid (acid test) ratio (1)	2

Question	Answer	Marks																																				
2(a)	Cash book <table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Smith</td><td>3 500</td><td>(1)</td><td>Balance b/d</td><td>4 327</td><td></td></tr><tr><td>Standing order error</td><td>100</td><td>(1)</td><td>Wages</td><td>850</td><td>(1)</td></tr><tr><td>Balance c/d</td><td>1 727</td><td></td><td>Interest error</td><td>150</td><td>(1)</td></tr><tr><td></td><td><u>5 327</u></td><td></td><td></td><td><u>5 327</u></td><td></td></tr><tr><td></td><td></td><td></td><td>Balance b/d *</td><td>1 727</td><td>(1) OF</td></tr></table>		\$			\$		Smith	3 500	(1)	Balance b/d	4 327		Standing order error	100	(1)	Wages	850	(1)	Balance c/d	1 727		Interest error	150	(1)		<u>5 327</u>			<u>5 327</u>					Balance b/d *	1 727	(1) OF	5
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2(b)	Bank reconciliation <table><tr><td>Balance per bank statement</td><td>(1 875)</td><td></td><td></td></tr><tr><td>Add uncleared lodgements</td><td>560</td><td>(1)</td><td></td></tr><tr><td>Less unpresented cheques</td><td>(340)</td><td>(1)</td><td></td></tr><tr><td>Less direct debit correction</td><td><u>(72)</u></td><td>(1)</td><td></td></tr><tr><td>Balance per cash book *</td><td><u>(1 727)</u></td><td>(1) OF</td><td></td></tr></table> (*) 1 mark if figure is correct/same amount as cash book from (a)	Balance per bank statement	(1 875)			Add uncleared lodgements	560	(1)		Less unpresented cheques	(340)	(1)		Less direct debit correction	<u>(72)</u>	(1)		Balance per cash book *	<u>(1 727)</u>	(1) OF		4																
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Question	Answer	Marks															
2(c)	To identify errors in the cash book (1) To identify errors on the bank statement (1) To identify uncleared lodgements (1) To identify unpresented cheques (1) To verify accuracy of accounting records (1) To update the cash book with transactions only on the bank statement (1) To identify out of date cheques (1) Accept other valid points. Max 2	2															
2(d)	Adjusted profit for the year <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;">Draft profit</td><td style="width: 20%; text-align: right;">10 340</td><td style="width: 40%;"></td></tr> <tr> <td>Damaged inventory (800 – (900 – 150))</td><td style="text-align: right;">(50)</td><td>(1)</td></tr> <tr> <td>Goods on sale or return (2800-2000)</td><td style="text-align: right;">(800)</td><td>(1)</td></tr> <tr> <td>Accrued rental</td><td style="text-align: right;"><u>(1 200)</u></td><td>(1)</td></tr> <tr> <td>Revised profit</td><td style="text-align: right;"><u>8 290</u></td><td>(1) OF</td></tr> </table>	Draft profit	10 340		Damaged inventory (800 – (900 – 150))	(50)	(1)	Goods on sale or return (2800-2000)	(800)	(1)	Accrued rental	<u>(1 200)</u>	(1)	Revised profit	<u>8 290</u>	(1) OF	4
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Revised profit	<u>8 290</u>	(1) OF															

Question	Answer	Marks
3(a)	\$152 000 – \$76 000 – \$4 000 = \$72 000 (1)	1
3(b)	$\frac{72000}{3} = \$24\,000$ (1) OF	1

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Question	Answer						Marks
3(c)		\$		\$			4
	Motor vehicles	6 000	**	Motor vehicles	3000	** (1) for both	
	Irrecoverable debt	2 000	(1)	Capital account – Adam	2000	#	
	Provision for doubtful debts	1 000	(1)	Capital account – Bilal	2000	# (1) for all three	
				Capital account – Chan	2000	#	
		<u>9 000</u>			<u>9000</u>		
3(d)		\$					3
	Capital account	20 000					
	Current account	(4 000)					
	Motor vehicle	(30 000)	(1)				
	Profit for the year	24 000					
	Loan account	80 000					
	Interest on loan	4 000					
	Loss on revaluation	(2 000)					
	Goodwill	<u>8 000</u>	(1)				
		100 000					
	Loan account	<u>(45 000)</u>					
	Due to Bilal from bank account	<u>55 000</u>	(1) CF				
3(e)	To reward partners for their fixed investment in the business (1) To encourage further capital investment in the business (1) Accept other valid points.						2
3(f)	To discourage large amounts of drawings by the partners (1) To penalise partners who make excessive drawings (1) Accept other valid points.						2

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Question	Answer	Marks
3(g)	The amount of salary payable to partners (1) Rate of interest on partners' loans (1) Management responsibilities of partners (1) Any limits on partners' drawings (1) Amount of partners' capital (1) Accept other valid points. Max 2	2

Question	Answer	Marks
4(a)	Enables selling prices to be set, because all costs are included in the pricing of a product. (1) Supports long-term planning, because this depends on revenue. It must cover not just direct costs but overhead costs as well. (1) Absorption costing conforms to the accruals concept, because the total cost of unsold inventory is charged to the period in which it is sold. (1) Accept other valid points. Max 3	3

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Question	Answer						Marks																																																																																											
4(b)	<table><tr><td></td><td colspan="3">Production debts</td><td colspan="2">Service departments</td><td></td></tr><tr><td></td><td>Total</td><td>Assembly</td><td>Printing</td><td>Technical support</td><td>Personnel</td><td></td></tr><tr><td></td><td>\$</td><td>\$</td><td>\$</td><td>\$</td><td>\$</td><td></td></tr><tr><td>Overheads already apportioned</td><td>40 210</td><td>17 530</td><td>11 360</td><td>5 020</td><td>6 300</td><td></td></tr><tr><td>Electricity</td><td>20 500</td><td>4 920</td><td>13 120</td><td>1 640</td><td>820</td><td>(1)</td></tr><tr><td>Insurance of machinery</td><td>7 500</td><td>5 250</td><td>1 500</td><td>600</td><td>150</td><td>(1)</td></tr><tr><td>Insurance of buildings</td><td>11 880</td><td>5 940</td><td>4 620</td><td>990</td><td>330</td><td>(1)</td></tr><tr><td></td><td><u>80 090</u></td><td>33 640</td><td>30 600</td><td>8 250</td><td>7 600</td><td></td></tr><tr><td>Personnel</td><td></td><td>3 800</td><td>2 850</td><td>950</td><td>(7 600)</td><td>(1) OF</td></tr><tr><td></td><td></td><td>37 440</td><td>33 450</td><td>9 200</td><td>0</td><td></td></tr><tr><td>Technical support</td><td></td><td>8 000</td><td>1 200</td><td>(9 200)</td><td></td><td>(1) OF</td></tr><tr><td></td><td></td><td><u>45 440</u></td><td><u>34 650</u></td><td><u>0</u></td><td></td><td></td></tr><tr><td></td><td></td><td>(1) OF</td><td>(1) OF</td><td></td><td></td><td></td></tr></table>							Production debts			Service departments				Total	Assembly	Printing	Technical support	Personnel			\$	\$	\$	\$	\$		Overheads already apportioned	40 210	17 530	11 360	5 020	6 300		Electricity	20 500	4 920	13 120	1 640	820	(1)	Insurance of machinery	7 500	5 250	1 500	600	150	(1)	Insurance of buildings	11 880	5 940	4 620	990	330	(1)		<u>80 090</u>	33 640	30 600	8 250	7 600		Personnel		3 800	2 850	950	(7 600)	(1) OF			37 440	33 450	9 200	0		Technical support		8 000	1 200	(9 200)		(1) OF			<u>45 440</u>	<u>34 650</u>	<u>0</u>					(1) OF	(1) OF				7
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4(c)	<table><tr><td>Assembly</td><td>$\frac{45\,440}{3\,200}$ OF</td><td colspan="4">\$14.20 (1) OF per labour hour (1)</td><td></td></tr><tr><td>Printing</td><td>$\frac{34\,650}{5\,500}$ OF</td><td colspan="4">\$6.30 (1) OF per machine hour (1)</td><td></td></tr></table>						Assembly	$\frac{45\,440}{3\,200}$ OF	\$14.20 (1) OF per labour hour (1)					Printing	$\frac{34\,650}{5\,500}$ OF	\$6.30 (1) OF per machine hour (1)					4																																																																													
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Question	Answer				Marks
4(d)	\$ Direct costs1 330.00 Overheads Assembly dept12.5 × \$14.20177.50 (1) OF Overheads Printing dept6 × \$6.3037.80 (1) OF Total cost1 545.30 (1) OF Profit$\frac{1}{3}$ of cost515.10 (1) OF				4
4(e)	\$ Assembly department1.5 hours less than forecast:Under-absorbed (1)21.30 (1) OF 1.5 × \$14.20 (OF) Printing department2 hours more than forecastOver-absorbed (1)(12.60) (1) OF 2 × \$6.30 (OF) Overheads under-absorbed8.70 (1) OF				5

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Question	Answer	Marks
4(f)	Financial – Max 2 All models make a positive contribution. (1) If any model was discontinued fixed costs would be reallocated to the remaining models. (1) Method of allocating fixed costs may be inappropriate. (1) Non-financial – Max 4 Discontinuing any model may result in loss of customers/sales. (1) Would the workforce be fully employed on the remaining models? (1) Would employees need training to produce alternative models? (1) Possible redundancies. (1) Demotivated workforce. (1) Adverse publicity. (1) Accept other valid points. Overall Max 6 for justification + 1 for recommendation.	7