Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/22**

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.

Cambridge International is publishing the mark schemes for the October/November 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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.

Question	Answer	Marks
1(a)	R Limited Income statement for the year ended 30 June 2018 | | $ | | Revenue | 286 000 | **(1)** Cost of sales **W1** | (138 350) | **(3)** Gross profit | 147 650 | **(1) OF** Administrative expenses **W2** | (28 300) | **(5)** Distribution costs **W3** | (86 000) | **(4)** Profit from operations | 33 350 | **(1) OF** Finance cost | (7500) | **(1)** Profit for the year | 25 850 | **(1) OF** **W1** Cost of sales: $(45 000 + 135 000) = $180 000 **(1)** – 41 650 **(1)** = 138 350 **(1) OF** **W2** Administrative Expenses | $ Depreciation on fixture and fittings (40 000 × 10%) | 4000 **(1)** Insurance (12 000 + (1000 + 500)) | 13 500 **(1)** Electricity (2700 – (500 + 400)) | 1800 **(1)** Wages and salaries (45 000 × $\frac{1}{5}$) | 9000 **(1)** | 28 300 **(1) OF** **W3** Distribution costs | $ Motor vehicle expenses | 10 000 **(1)** Depreciation on motor vehicles (150 000 + 50 000 × 20%) | 40 000 **(1)** Wages and salaries (45 000 × $\frac{4}{5}$) | 36 000 **(1)** | 86 000 **(1) OF**	**17**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>Capital reserves are created as a result of non-trading activities (1) whereas revenue reserves are created as a result of trading activities (1)
Capital reserves cannot be used to fund dividend payments (1) whereas revenue reserves can be used to fund dividend payments (1)
Capital reserves are non-distributable (1) whereas revenue reserves are distributable (1)
Accept other valid points.
Max 4.</td><td>4</td></tr>
<tr><td>1(c)</td><td><table><tr><th>Option 1 (Shares)</th><th>Option 2 (Debentures)</th></tr><tr><td>Payment of dividends is discretionary (1)</td><td>Debenture interest must be paid (1)</td></tr><tr><td>May dilute ownership/control (1)</td><td>Would not dilute ownership/control (1)</td></tr><tr><td>Permanent capital (1)</td><td>Would increase the non-current liabilities (1)</td></tr><tr><td>No security required (1)</td><td>Security may be required (1)</td></tr><tr><td>Dividends do not reduce the profit for the year (1)</td><td>Payment of interest will reduce the profit for the year (1)</td></tr></table>Accept other valid responses.

Max 4

Decision (1)</td><td>5</td></tr>
</table>

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(d)(i)</td><td>Advantages
• Will improve overall cash flow (1)
• Reduces the possibility of irrecoverable debts (1)

Disadvantages
• Maybe a reduction in number of customers (1)
• May have to reduce selling price to attract new customers (1)

Accept other valid advantages and disadvantages.
Max 1 advantage and 1 disadvantage.</td><td>2</td></tr>
<tr><td>1(d)(ii)</td><td>Advantages
• May improve the relationships with the suppliers (1)
• May be able to negotiate a better purchase price (1)

Disadvantages
• Overall cash flow will decrease (1)
• Not making use of available credit terms (1)

Accept other valid advantages and disadvantages.
Max 1 advantage and 1 disadvantage</td><td>2</td></tr>
</table>

Question	Answer	Marks
2(a)(i)	25 days **(2)** **Working** $\frac{(30\,000 + 50\,000)}{2} = \frac{40\,000}{600\,000} \times 365 = 25$ days **(1) OF** 750 000 × 80% = 600 000 **(1)**	**2**
2(a)(ii)	36 days **(2)** **Working** $\frac{65\,000}{675\,000} \times 365 = 36$ days **(1) OF** 750 000 × 90% = $675 000 **(1)**	**2**
2(a)(iii)	25 days **(3)** **Working** $\frac{31850}{465\,000} \times 365 = 25$ days **(1) OF** 600 000 + 50 000 – 30 000 = 620 000 **(1)** 620 000 × 75% = 465 000 **(1) OF**	**3**

Question	Answer	Marks
2(b)	Inventory turnover indicates that it is taking longer than the industry average to sell goods **(1)** resulting in a delay in receipt of payment from customers **(1)** Nibali's customers are taking 6 days over the credit terms to settle their accounts and Nibali is paying his suppliers 5 days early **(1)** resulting in cash leaving the business before settlement is received **(1)** **Conclusion/advice** Overall, Nibali's efficiency ratios indicate poor liquidity **(1)** **Accept other valid points.**	**5**
2(c)	Theft **(1)** Storage costs **(1)** Insurance **(1)** Obsolescence **(1)** Damage **(1)** Opportunity cost **(1)** **Accept other valid points.** **Max 3.**	**3**

Question	Answer	Marks
3(a)	Capital accounts	6

	Miguel		Bernard		Eddy			Miguel		Bernard		Eddy	
Goodwill	20 000		12 000		8000	*	Balance b/d	100 000		145 000			**(1)**
Balance c/d	103 040		167 560		82 000		Bank					50 000	**(1)**
							Assets					40 000	**(1)**
							Goodwill	16 000		24 000			**(1) *both**
							Revaluation	7040		10 560			**(1)**
	123 040		179 560		90 000			123 040		179 560		90 000	
							Balance b/d	103 040		167 560		82 000	**(1)**

Question	Answer	Marks
3(b)	Miguel, Bernard and Eddy Appropriation Account for the year ended 31 May 2019	**5**

	4 months $		8 months $	
Profit	13 000		26 000	
Loan interest	–		2000	**(1)**
Profit for the period	13 000		24 000	
Salary – Eddy			8000	**(1)**
Share of profit				
Miguel	6500		6400	**(1) for both**
Bernard	3900		6400	**(1) for both**
Eddy	2600		3200	**(1) for both**
	13 000		16 000	

Question	Answer	Marks
3(c)	**Capital accounts** Separate capital accounts record the permanent investment of each partner **(1) f**acilitating the calculation of interest on capital **(1)** **Current accounts** Separate current accounts record the transactions between the partners and the partnership **(1)** facilitating the calculation of interest on drawings **(1)**	**4**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(a)</td><td>Estimated figures used may be inaccurate (1) leading to under or over absorption of overheads (1)

Over absorption of overheads may lead to prices being set too high (1) which may lead to loss of customers (1)
Under absorption of overheads may lead to prices being set too low (1) which would result in lower profits (1)

Accept other valid points.

Any 2 drawbacks (2 marks each) 1 mark for identifying the drawback and 1 mark or developing.</td><td>4</td></tr>
<tr><td>4(b)(i)</td><td>
<table>
<tr><th></th><th>Drilling
$</th><th></th><th>Finishing
$</th><th></th><th>Total
$</th></tr>
<tr><td>Allocated costs</td><td>435 720</td><td></td><td>748 900</td><td></td><td>208 000</td></tr>
<tr><td>Apportioned maintenance costs</td><td>79 040</td><td></td><td>128 960</td><td></td><td></td></tr>
<tr><td>Total departmental overheads</td><td>514 760</td><td>(1)</td><td>877 860</td><td>(1)</td><td></td></tr>
</table>
Accept either apportioned maintenance costs OR total departmental overheads for marks.</td><td>2</td></tr>
<tr><td>4(b)(ii)</td><td>
<table>
<tr><th></th><th>Drilling</th><th></th><th>Finishing</th><th></th></tr>
<tr><td>Total departmental overheads</td><td>514 760</td><td></td><td>877 860</td><td></td></tr>
<tr><td>Budgeted machine hours</td><td>27 530</td><td></td><td>32 270</td><td></td></tr>
<tr><td>Budgeted overhead absorption rate</td><td>$18.70</td><td>(1) OF</td><td>$27.20</td><td>(1) OF</td></tr>
</table></td><td>2</td></tr>
</table>

Question	Answer	Marks
4(c)	\$235 500 **(3)** **Workings** Basic 7500 × \$30 = \$225 000 **(1)** Overtime 700 × \$15 = \$10 500 **(1)** Total wages \$235 500 **(1) OF** **or** Basic 6800 × 30 = \$204 000 **(1)** Overtime 700 × 45 = \$31 500 **(1)** Total wages \$235 500 **(1) OF**	**3**

Question	Answer	Marks
4(d)	Actual absorption rates and over/under-absorption	8

	Drilling $		Finishing $		Maintenance $	
Total overhead costs	427 360		713 630		235 500	
Apportioned maintenance	89 490		146 010		(235 500)	
	516 850	**(1)**	859 640	**(1)**		
Actual machine hours	25 110		31 976			
Budgeted overhead absorption rate	$18.70		$27.20			
Overheads charged to production	$469 557	**(1) OF**	$869 747	**(1) OF**		
Under/over recovery of overheads	47 293	**(1) OF**	10 107	**(1) OF**		
	(under)	**(1) OF**	(over)	**(1) OF**		

Question	Answer	Marks
4(e)	**Financial factors (Max 3)** Makes a positive contribution **(1)** ($1300 – (710 + 225 + 85 + 140) = $140 **(1)** Does not achieve the required profit margin **(1)** Makes a loss of $160 **(1)** The allocation of fixed overheads may be inaccurate **(1)** **Non-financial factors (Max 3)** This is a new customer. Will there be repeat orders? **(1)** What will be the reaction of the existing customers? **(1)** Does the company have spare capacity/other resources? **(1)** Will the quality of the product be affected **(1)** Decision **(1)** **Accept other valid points.**	**7**
4(f)	**Quality** – will the product quality be the same? **(1)** **Price –** is the new supplier likely to offer a lower price? **(1)** **Credit terms** – will the new supplier offer the same credit terms? **(1)** **Reliability** – is the supplier reliable? **(1)** **Delivery** – will the supplier offer delivery? **(1)** **Accept other valid points.** **Max 4.**	**4**