Cambridge International AS & A Level

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ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 2017**

MARK SCHEME

Maximum Mark: 90

Published

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Question	Answer	Marks
1(a)	| | $ | | $ | | Revenue | | | 300 000 | | Opening inventory (bal. figure) | 28 000 | **(1) OF** | | | Purchases | 250 000 | | | | Closing inventory | (38 000) | | | | Cost of sales | | | 240 000 | **(1) OF** Gross profit | | | 60 000 | **(1)** Expenses | | | 27 000 | Profit for the year | | | 33 000 | **(1) OF**	**4**
1(b)	Previous loss brought forward **(1)** Payment of dividends **(1)** Bonus issue of shares **(1)** **Max 2**	**2**
1(c)(i)	Inventory turnover 240 000/33 000 **(1)OF** = 7.27 times **(1)OF**	**2**
1(c)(ii)	Liquid (acid test) ratio 80 000/78 000 **(1)** = 1.03 : 1 **(1)**	**2**
1(c)(iii)	Trade payables turnover (days) (27 000/200 000) × 365 **(1)** = 50 days **(1)**	**2**
1(d)	Rate of inventory turnover (days) – Better for XY Limited and worse for AB Limited **(1)** The goods being sold by AB Limited are less popular or slower selling than those of XY Limited; **or** XY Limited may have offered sales promotions. **(1)** Liquid (acid test) ratio – Better for AB Limited and worse for XY **(1)** AB Limited have sufficient current assets to cover its short term debts; **Or** For every $1 of current liabilities AB Limited has enough liquid assets **(1)**. Trade payables payment – Slower for AB Limited and faster for XY Limited **(1)** AB Limited's suppliers may have poor credit control. They may not be offering AB Limited incentives to pay early, unlike XY Limited. **(1)** **(2 marks)** for each ratio 1 mark for basic point and 1 for development.	**6**
1(e)	AB Limited: More liquidity, lower inventory turnover but has ability to pay trade payables. XY Limited: Higher rate of inventory turnover, faster payment period **1 mark for decision and 3 for reasons.** Accept other valid points.	**4**

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Question	Answer	Marks
1(f)	|	| \$ | | | Original profit | 71 000 | | | Error 1 | (90) **(1)** | | Error 2 | (100) **(1)** | | Error 3 | 1 200 **(1)** | | Revised gross profit | 72 010 **(1)OF** |	**4**
1(g)	A revenue reserve is profit retained by the directors and is the property of the ordinary shareholders. Source of capital reserve is from issuing capital, that is, share premium. Revenue reserves can be used to pay cash dividends from retained profits. Capital reserves help protect creditors. Capital reserves cannot be used to pay cash dividends but can be used for bonus shares. **(2 marks) × 2 points** – 1 mark for basic point and 1 for development	**4**
	Total:	**30**

Question	Answer	Marks
2(a)	Realisation account	6

	$			$	
Premises	40 000		Trade payables	9 800	
Machinery	32 000		Bank (trade receivables) **	12 600	
Motor vehicles	18 000		Bank (inventory) **	15 000	
Inventory	18 600		Bank (machinery) **	35 000	**(1**)**
Trade receivables	13 100		Amit (premises)	30 000	**(1)**
Bank (trade payables)	9 800	**(1)**	Binu (motor vehicle)	6 500	**(1)**
Dissolution expenses	6 300		Bank (motor vehicles)	12 000	**(1)**
			Capital account – Amit #	10 140	
			Capital account – Binu #	6 760	**(1#)**
	137 800			137 800	

Question	Answer				Marks
2(b)				$	4
	Capital account balance			20 000	
	Current account balance			18 400	
				38 400 **(1)**	
	Motor vehicle	6 500	**(1)**		
	Realisation deficit	6 760	**(1)**	13 260	
	Payable to Binu			25 140 **(1)**	

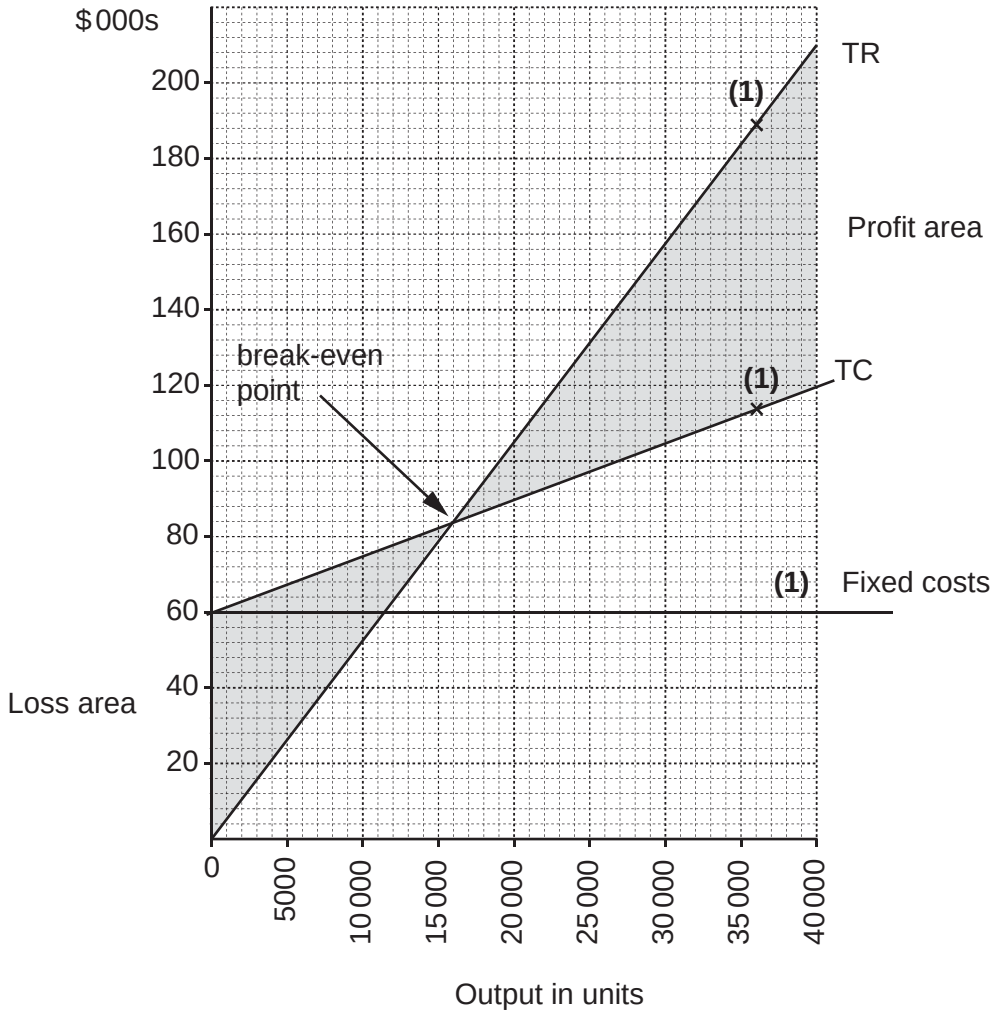
Question	Answer	Marks
2(c)	Disagreements between partners Death or retirement of a partner Bankruptcy **Max 2**	2
2(d)	This means that the partner owes money to the partnership **(1)** The partner must use his personal funds to repay the partnership bank account **(1)** in order that funds owing to other partners may be repaid **(1)**	3
	Total:	**15**

Question	Answer	Marks
3(a)	It enables checking transactions through the use of a trial balance and control accounts. It enables the production of the income statement and statement of financial position to be compiled more easily. It shows the amount due to individual customers and suppliers thus avoiding overpayment. Helps guard against errors / fraud. **(1 mark)** × 3 points	**3**
3(b)	Sales ledger control account Description — Add ($) — Less ($) — Total ($) Opening balance — — — 33205 Error in sales journal — 1649 **(1)** — — Irrecoverable debt omitted — — 420 **(1)** — Credit omitted — — 160 **(1)** — Totals — 1649 — 580 — 1069 Corrected balance — — — 34274 Sales ledger balances Description — Add ($) — Less ($) — Total ($) Opening balance — — — 34524 Less error in cheque entry — — 90 **(1)** — Less credit omitted — — 160 **(1)** — Total — — 250 — (250) Corrected balance — — — 34274 **(1) both**	**6**
3(c)	A customer has overpaid in error A credit has been given and the customer has not taken A contra has been put through but the customer has ignored it. A customer has paid in advance Not taking a discount There is a deposit on goods. Customer paid for the goods before returning them. Customer overpaid and invoice **(1 mark)** × 3 points	**3**
3(d)	May improve trade receivables collection period. Improve cash flows Meena may lose customers May need tighter credit control which may increase cost **Decision (1 mark)** **Justification (2 marks)**	**3**
	Total:	**15**

Question	Answer	Marks
4(a)	$ $ Selling price 5.25 Direct materials 0.50 Direct labour 0.75 Direct expenses 0.25 1.50 3.75 Contribution per unit: 3.75 **(1)** × 16 000 units **(1)** = $60 000 **(1)**	**3**
4(b)(i)	$ Fixed costs 60 000 + Profit 75 000 Contribution required: 135 000 **(1)OF** ÷ 3.75 = 36 000 units **(1OF)**	**2**
4(b)(ii)	$\frac{\$3.75^*}{\$5.25^*}$ = 71.43% **(1)OF** ***1 OF both**	**2**
4(c)	It shows how much contribution is earned from each $1 of sales revenue **(1)**	**1**
4(d)(i)	It represents the margin of safety **(1)**	**1**
4(d)(ii)	The amount by which actual sales can fall short of the budgeted sales before he reaches break-even point **(1)** and then makes no profit **(1)**.	**2**

Question	Answer	Marks
4(e)		**7**

	Units	$	
Total revenue (TR)	0,	0	
	0,	189 000	36 000 units × $5.25
Fixed costs (FC)	0,	60 000	
Total costs (TC)	0,	60 000	
	36 000,	114 000	36 000 units × $1.50 = 54 000 + 60 000



Marks (incl labels) 1 × 3 = 3 marks
1 mark profit area, 1 mark loss area and 1 mark break-even point
1 mark for axis

Question	Answer	Marks
4(f)	Limitations: • Some costs are not easily classified as fixed or variable. • Some costs are semi-variable. • It assumes fixed costs stay the same. • Straight lines can be misleading – discounts can cause curved lines. • A chart can be time consuming to prepare. • It assumes the selling price is constant at all levels of output. • It can be misleading for those with limited accounting knowledge. • Can only be applied to one product at a time **(1 mark)** × any 3 limitations, max 3	**3**
4(g)	New contribution = 6.00 – 1.50 = $4.50 **(1)** Fixed cost $60 000 Profit $75 000 Target 135 000 **(1)** Sales per month = (135 000 / 4.50) **(1)OF** = 30 000 / 12 **(1)** = 2500 units **(1)OF**	**5**
4(h)	Proceed because • It covers the budgeted total costs and provides a profit. • It provides a positive contribution. Need to bear in mind • The market price of similar products. • How innovative is his product to justify the price increase / will customers expect higher quality for higher price. • Will customers accept the increase or go elsewhere / decrease in demand. • Fixed costs are covered for now but they may change in the future. • Short term view – he could lose profit in the long term. **Advice 1 mark** **(1 mark)** × any 3 reasons, max 3	**4**
	Total:	**30**