Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING **9706/21**

Paper 2 Structured Questions **May/June 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 May/June 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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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.

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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)	It will have up-to-date information of assets and liabilities / and will inform decision making **(1)** The business can more easily chase trade receivables and keep up to date with trade payables **(1)** The preparation of the financial statements is easier and more accurate / reducing the possibility of errors **(1)** **Accept other valid points.**	**3**
1(b)(i)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>$7000 – 2800</td><td>4200</td><td>**(1)**</td></tr><tr><td>Depreciation for 6 months</td><td>(700)</td><td>**(1)**</td></tr><tr><td>Net book value on disposal</td><td>3500</td><td></td></tr><tr><td>Part-exchange</td><td>3300</td><td></td></tr><tr><td>Loss on disposal</td><td>(200)</td><td>**(1)**</td></tr></table>	**3**
1(b)(ii)	Total depreciation charge for motor vehicles for the year ended 30 April 2019 <table><tr><td></td><td>$</td><td></td></tr><tr><td>Depreciation on vehicles disposed</td><td>700</td><td>**(1) OF**</td></tr><tr><td>New vehicle 10 100 × 10%</td><td>1010</td><td>**(1)**</td></tr><tr><td>Remaining vehicles 18 000 × 20%</td><td>3600</td><td>**(1)**</td></tr><tr><td>Charge for the year</td><td>5310</td><td>**(1) OF**</td></tr></table>	**4**

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Question	Answer	Marks
1(c)	Income statement for the year ended 30 April 2019 Revenue **W1** — $ 58 430 **(1)** Inventory on 1 May 2018 — $ 6 750 Purchases **W2** — $ 25 970 $ 32 720 Inventory on 30 April 2019 — $ 5 470 — $ 27 250 **(1)** Gross profit — $ 31 180 Wages **W3** — $ 11 500 **(1)** Rent **W4** — $ 6 850 **(1)** General expenses — $ 2 300 Provision for doubtful debts — $ 190 **(1)** Loss on sale of motor vehicle — $ 200 **(1) OF** Depreciation on motor vehicles — $ 5 310 **(1) OF** Depreciation on equipment **W5** — $ 2 900 **(1)** — $ 29 250 Profit for the year — $ 1 930 **(1) OF** Workings: **W1** Revenue 57 900 + 3790 – 3260 = 58 430 **W2** Purchases 25 800 + 4560 – 4390 = 25 970 **W3** Wages 10 700 + 2300 – 1500 = 11 500 **W4** Rent 7500 – 1600 + 950 = 6850 **W5** Depreciation equipment 20 500 – 17 600 = 2900	**9**
1(d)	Application of concept of prudence **(1)** Application of matching concept **(1)** Profit may be overstated in the event of irrecoverable debts **(1)** Trade receivables / current assets may be overstated **(1)** **Accept other valid points.**	**4**

Question	Answer	Marks
1(e)	Loan **Max 3** Annual interest will reduce / eliminate profit **(1)** Does he want any security? **(1)** Will he want capital repaid? **(1)** However, it will clear the overdraft in the short-term. **(1)** **Accept other valid points.** Becoming a partner **Max 3** Will bring in expertise / new ideas **(1)** May generate additional gross profit **(1)** May be able to reduce wages which is the main expense **(1)** There may be conflict between the three partners **(1)** Possibly less profit for Ahmed and Raji **(1)** **Accept other valid points.** **1** for Advice	**7**

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Question	Answer	Marks
2(a)(i)	Lawrence Corrected purchases ledger control account Discount received $280 **(1)** — Balance b/d $16 970 Cash payment $120 **(1)** — Contra $1 070 **(1)** Contra $380 — Discount allowed $70 **(1)** Corrected balance c/d $17 330 $18 110 — $18 110 Balance b/d $17 330	**4**
2(a)(ii)	Lawrence Corrected sales ledger control account Balance b/d $42 350 — Sales return $460 **(1)** Dishonoured cheque $90 **(1)** — Irrecoverable debt $190 **(1)** Discount $140 **(1)** Contra $380 **(1)** Corrected balance c/d $41 270 $42 440 — $42 440 Balance b/d $41 270	**5**
2(b)	A transaction recorded in the wrong account of the same class **(1)** but using the correct amount and on the correct side. **(1)**	**2**
2(c)(i)	Incorrect sales ledger balances could mean Lawrence not collecting the right amount from credit customers. **(1)** It may also risk resulting in irrecoverable debts. **(1)** Non-collection of debts would negatively impact cash balances. **(1)** May lead to incorrect financial statements **(1)** **Max 2** **Accept other valid points.**	**2**

Question	Answer	Marks
2(c)(ii)	Incorrect purchase ledger balances could mean possible disputes with suppliers affecting deliveries **(1)** and may result in credit facilities being withdrawn. **(1)** May lead to overpaying suppliers **(1)** May result in loss of opportunities of settlement discount. **(1)** **Max 2** **Accept other valid points.**	**2**

Question	Answer	Marks
3(a)	$44 500 – $2000 **(1)** = $42 500 **(1) OF**	**2**
3(b)	Statement of Changes in Equity for the year ended 30 September 2018	**11**

	Ordinary shares	Share premium	Revaluation reserve	Retained earnings	
	$	$	$	$	
At 1 October 2017	500 000	175 000		540 000	
Profit for the year				42 500	**(1) OF**
Rights issue **W1**	200 000 **}**	120 000 **} (3)**			
Bonus issue **W2**	420 000 **(1)**	(295 000) **(1)**		(125 000)	**(1)**
Dividends paid **W3**				(224 000)	**(2)**
Revaluation of buildings			350 000 **(1)**		
At 30 September 2018	1 120 000	0	350 000	233 500	**(1) OF**

Question	Answer	Marks
3(b)	**W1** Rights issue: $500\,000 \times 4 = \frac{2\,000\,000}{5 \times 2}$ **(1)** $= 800\,000$ **(1) OF** $800\,000 \times 0.25 = 200\,000$ } **(1) OF both** $800\,000 \times 0.15 = 120\,000$ } **W2** Bonus issue: $2\,000\,000 + 800\,000 = 2\,800\,000$ $\frac{2\,800\,000}{5 \times 3} = 1\,680\,000$ **(1) OF** $1\,680\,000 \times 0.25 = 420\,000$ **(1) OF** **W3** Dividends paid: $2\,000\,000 + 800\,000 + 1\,680\,000 = 4\,480\,000$ $4\,480\,000 \times 0.05 = 224\,000$ **(1) OF**	
3(c)	Capital reserves: Non distributable Cannot be used to pay dividends Created via changes in capital structure / non-trading activities **Max 1** **Accept other valid points.** Revenue reserves: Distributable Can be used to pay dividends Created via trading activities **Max 1** **Accept other valid points.**	**2**

Question	Answer	Marks
4(a)(i)	\$60 000 **(1)**	**1**
4(a)(ii)	\$40 000 **(1)**	**1**
4(a)(iii)	\$30 000 **(1)**	**1**
4(a)(iv)	\$20 000 **(1)**	**1**
	Workings:  	

Question	Answer	Marks
4(b)	Budgeted profit Budgeted units 105 000	**10**

	$	
Sales revenue	315 000	
Less direct labour	210 000	
Less direct materials	52 500	
Contribution	52 500	
Less allocated fixed costs	34 500	
Budgeted profit	18 000	**(1)**

Profit with changes

		$ per unit		*or*	$
Selling price	$3 × 1.05 =	3.15	**(1)**	× 105 000 units	330 750
Less direct labour	$4 × 1.05 = $4.20 × 0.5 hour =	2.10	**(1)**	× 105 000 units	220 500
Less direct materials	$2 × 1.02 = $2.04 × 0.25 kilos =	0.51	**(1)**	× 105 000 units	53 550
Contribution		0.54			56 700

Alternate working for contribution per unit

		$
Selling price	$\frac{\$315\,000}{105\,000} = \$3.00 \times 1.05$	3.15
Less direct labour	$\frac{\$210\,000}{105\,000} = \$2 \times 1.05$	2.10
Less direct material	$\frac{\$52\,500}{105\,000} = \$0.5 \times 1.02$	0.51
Contribution per unit		0.54

		$	
Total contribution	$0.54 × 105 000 units =	56 700	**(1) OF**
Less sales bonus		1 575	* see working
Less allocated fixed costs	$34 500 + 6000 =	40 500	**(1)**
		14 625	**(1) OF**

* sales bonus 105 000 – 80 000 = 25 000 units × $3.15 = $78 750 **(1) OF** × 2% = $1575 **(1) OF**

Budgeted profit = $18 000 New profit = – $14 625 Change = $3375 decrease **(1) OF**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>4(c)</td><td>Break-even

<table>
<tr><td></td><td>budgeted</td><td>new</td><td></td></tr>
<tr><td>Allocated fixed costs</td><td>$34 500</td><td>$40 500</td><td>(1) OF both</td></tr>
<tr><td>Contribution per unit</td><td>÷ 0 .50</td><td>÷ 0 .54</td><td>(1) OF both</td></tr>
<tr><td>Break-even units</td><td>69 000</td><td>75 000</td><td></td></tr>
<tr><td>Selling price per unit</td><td>× $3</td><td>× $3 .15</td><td>(1) OF both</td></tr>
<tr><td>Break-even</td><td>$207 000</td><td>$236250</td><td>(1) OF both = increase of $29 250 (1) OF</td></tr>
</table></td><td>5</td></tr>
<tr><td>4(d)</td><td>Margin of safety

New 105 000 – 75 000 = 30 000 units } (1) OF both
budgeted 105 000 – 69 000 = <u>36 000 units</u> }
decrease of 6000 units (1) OF</td><td>2</td></tr>
<tr><td>4(e)</td><td>Table to show analysis of results

<table>
<tr><td></td><td>Budgeted</td><td>After changes</td></tr>
<tr><td>Contribution</td><td>$52 500</td><td>$56 700</td></tr>
<tr><td>Profit</td><td>$18000</td><td>$14625</td></tr>
<tr><td>Break-even</td><td>69000 units</td><td>75000 units</td></tr>
<tr><td>Break-even</td><td>$207000</td><td>$236250</td></tr>
<tr><td>Margin of safety</td><td>36000 units</td><td>30000 units</td></tr>
</table></td><td>5</td></tr>
</table>

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Question	Answer	Marks
4(e)	Recommend: The changes are not worthwhile. **(1)** Because: Although budgeted contribution is higher, the profit after the changes is lower **(1)**, due to allocated fixed costs increasing – advertising and sales bonus. **(1)** The margin of safety is lower **(1)** which means there is less of a buffer / comfort zone before Wye starts to make a loss. **(1)** The break-even point is higher **(1)** which increases the risk **(1)** of Wye not making enough sales to cover fixed costs. **(1)** **Accept other valid points.** **(1 mark)** × any 4 reasons – **Max 4**	
4(f)	Possible answers: Identify underperforming products **(1)** Ensure sufficiently skilled labour is available to meet production **(1)** Ensure sufficient finance is available to continue operations and any planned investments **(1)** Ensure the correct quality/cost of material / discounts can be obtained from suppliers **(1)** Be able to adapt to changes in the future / provides alternatives if financial targets are not being met **(1)**	**4**

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Question	Answer	Marks
4(f)	Price products competitively **(1)** Avoid 'firefighting' / avoid potential problems in the future **(1)** Assess any competition / markets for products **(1)** Estimate the likely future position of business – short term and long term **(1)** Identify areas of responsibility of managers **(1)** **(1 mark)** × any 4 advantages **Accept other valid points.**	