Cambridge International AS & A Level

**Cambridge International Examinations**
Cambridge International Advanced Subsidiary and Advanced Level

**ACCOUNTING** **9706/22**

Paper 2 Structured Questions (Core) **October/November 2016**

MARK SCHEME

Maximum Mark: 90

**Published**

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**1 (a)**

| | 9 months $ | | 3 months $ | | |
|---|---|---|---|---|---|
| Profit from operations | 9450 | | 3150 | | **(1 for both profits)** |
| Less loan interest: | 900 | | 240 | | |
| Profit before appropriation | 8550 | **(1)** | 2910 | **(1)** | |

Workings: **[3]**

**(b)**

Tom and Jerry
Appropriation Account for the year ended 30 November 2015

| | | 9 months $ | | 3 months $ | | $ | |
|---|---|---|---|---|---|---|---|
| Profit before appropriation | | 8550 | | | | 2910 | |
| Interest on drawings: | | | | | | | |
| | Tom | | | 60 | | | |
| | Jerry | | | 21 | | 81 | **(1)** |
| Salary: | Tom | | | | | (4054) | **(1)** |
| Interest on capital: | | | | | | | |
| | Tom | | | (1800) | | | |
| | Jerry | | | (1080) | | (2880) | **(1)** |
| Remaining profit / loss | | 8550 | | | | (3943) | **(1) OF for both** |
| Split of remaining profit / loss: | | | | | | | |
| | Tom | 4275 | **(1)OF** | (2366) | **(1)OF** | | |
| | Jerry | 4275 | **both** | (1577) | **both** | | |
| | | 8550 | | | | (3943) | |

**[6]**

**(c)**

Current accounts

| | Tom | Jerry | | | Tom | Jerry | |
|---|---|---|---|---|---|---|---|
| Balance b/d | | 10800 | | Balance b/d | 18000 | | |
| Interest on drawings | 60 | 21 | **(1)OF** | Salary | 4054 | | **(1) OF** |
| Drawings | 8000 | 2800 | **(1)** | Interest on capital | 1800 | 1080 | **(1) OF** |
| Loss | 2366 | 1577 | **(1)OF** | Loan interest | 1140 | | **(1) OF** |
| | | | | Profit share | 4275 | 4275 | **(1) OF** |
| Balance c/d | 18843 | | | Balance c/d | | 9843 | |
| | 29269 | 15198 | | | 29269 | 15198 | |
| Balance b/d | | 9843 | | Balance b/d | 18843 | | **(1) OF** |

**[8]**

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**(d)** Capital expenditure is expenditure on non-current assets **(1)** with an expected life of more than 12 months **(1) Max 1**
Revenue expenditure is expenditure on running costs to generate income / day-to-day operating expenses **(1) Max 1** **[2]**

**(e)** Consistency **(1)**
- to assist comparisons of performance between years. **(1)**
- using the same depreciation method each year. **(1)**

OR

Prudence **(1)**
- avoid overstating profits / net assets **(1)**
- charging depreciation as an expense and so not overstating profits **(1)**

**OR**

Accruals / matching **(1)**
- match the cost of an asset with the income generated from its use **(1)**
- matching wear and tear of the asset against the reduction in value **(1)** **[3]**

**(f)** **(i)** Possible options could include:

- External loan
- Partner's loan
- Introduce new partner
- Partner introduces additional capital
- Sale of unused non-current assets
- Hire purchase

Award 1 mark for identifying source plus max 2 marks for development (max 3 marks per source)

For example
Bank loan **(1)**
Has to be paid back with interest at either a fixed or variable rate **(1)**. May require security / collateral to cover the possibility of loan default **(1)**.

Introduce new partner **(1)**
Would introduce capital which doesn't need to be repaid **(1)**. The partner would however expect a share of the profits **(1).** **[6]**

**(ii)** 1 mark for a decision about the source of funding and max 1 mark for any justification of the outcome. **[2]**

**[Total: 30]**

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**2 (a)**

| | Share capital | Share premium | General reserve | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| At 1 January 2015 | $ 240 000 | $ 8 000 | $ 40 000 | $ – | $ 75 500 | $ 363 500 |
| Share issue | 20 000 **(1)** | 1 000 **(1)** | | | | 21 000 |
| Final dividend | | | | | (7 200) **(1)** | (7 200) |
| Revaluation | | | | 20 000 **(1)** | | 20 000 |
| Profit for the year | | | | | 47 100 **(1)** | 47 100 |
| At 31 December 2015 | 260 000 | 9 000 | 40 000 | 20 000 | 115 400 | 444 400 |

**[5]**

**(b)**

| | Share capital | Share premium | General reserve | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| At 31 December 2015 | $ 260 000 | $ 9 000 | $ 40 000 | $ 20 000 | $ 115 400 | $ 444 400 |
| Profit | | | | | 25 000 **(1)** | 25 000 |
| Bonus issue | 10 400 **(1)** | (9 000) **(1OF)** | | (1 400) **(1OF)** | | – |
| At 30 June 2016 | 270 400 | – | 38 600 | 20 000 | 140 400 | 469 400 |

**[4]**

**(c)**

| **Ordinary shares** | **Debentures** |
|---|---|
| Variable returns | Fixed returns |
| Owners | Creditors |
| Receive dividend | Receive interest |
| Paid dividend after debenture holders | Paid interest before ordinary shareholders |
| Voting rights | No voting rights |
| Not repaid | Must be repaid |
| In case of liquidation paid last | In case of liquidation paid first |

**Any 2 differences 2 marks** **[4]**

**(d)** The debenture loan is repayable between the years 2018 and 2020 **(1)** **[1]**

**(e)** Because it is a long term liability **(1)** and is shown as a non-current liability in the statement of financial position. **(1)**
**Max 1** **[1]**

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**[Total: 15]**

**3 (a) (i)** Examples
A suspense account is a temporary account used to balance the trial balance **(1)**
Used to help correct errors when the trial balance / books of account do not balance **(1)**
**Max 1** **[1]**

**(ii)** Answers could include:

It improves the accuracy of the sales ledger by identifying some errors **(1)**.
It enables a reconciliation to be made between the sales ledge control account and the individual accounts in the sales ledger to enable errors to be identified and corrected **(1)**.
It provides a total of trade receivables to be used in the trial balance and financial statements **(1)**.
Reduces the possibility of fraud as a result of segregation of duties **(1)**
**Max 3** **[3]**

**(b)**

| | Debit $ | Credit $ | |
|---|---|---|---|
| Sales | 26 350 | | **(1)** |
| Suspense | | 26 350 | **(1OF)** |
| | | | |
| Motor expenses | 5 270 | | **(1)** |
| Motor vehicles | | 5 270 | **(1 OF)** |
| Provision for depreciation | 1 054 | | **(1)** |
| Depreciation charge | | 1 054 | **(1OF)** |
| | | | |
| Suspense | 17 890 | | **(1)** |
| Interest received | | 17 890 | **(1OF)** |

**[8]**

**(c)**

| | Profit before correction | | Profit after correction | |
|---|---|---|---|---|
| | Understated | Overstated | Increase | Decrease |
| | $ | $ | $ | $ |
| Sales | | 26 350 **(1)** | | 26 350 **(1)** |
| Motor expenses | | 5 270 **(1)** | | 5 270 **(1)** |
| Depreciation | 1 054 **(1)** | | $1 054 **(1)** | |
| Interest received | 17 890 **(1)** | | $17 890 **(1)** | |

Accept amounts or an indication of increase / decrease.

**Max 3 marks** **[3]**

**[Total: 15]**

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**4 (a) (i)**

| | X | | Y | |
|---|---|---|---|---|
| Selling price | 48 | | 54 | |
| Variable costs | 40 | | 45 | |
| Contribution | 8 | **(1)** | 9 | **(1)** |

**[2]**

**(ii)**

| | | |
|---|---|---|
| X: 5000 ×4 | 20 000 | **(1)** |
| Y: 7000 × 6 | 42 000 | **(1)** |
| Total hours | 62 000 | |

**[2]**

**(b)**

| | X | Y | |
|---|---|---|---|
| Contribution per unit | $8 | $9 | |
| Labour hours | 4 | 6 | |
| Contribution per labour hour | $2 | $1.5 | **(1OF)** |
| Rank | 1st | 2nd | **(1OF)** |

| | $ | |
|---|---|---|
| X: 5 000 units × $8 | 40 000 | **(1OF)** |
| Y: 6 500 units × $9 | 58 500 | **(1OF)** |
| Total contribution | 98 500 | |
| Fixed costs: | | |
| 5 000 × $5.75 | (28 750) | **(1)** |
| 7 000 × $4.80 | (33 600) | **(1)** |
| Maximum profit | 36 150 | **(1OF)** |

**[7]**

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**(c) (i) Option 1**

**Calculation (Max 2)**

Contribution would be an extra $1050 **(2 / 1OF)**
**OR** profit would be $37 200 **(2 / 1OF)**

**Evaluation (Max 3)**

- Quality / reputation is maintained via in house production **(1)**
- Will quality and productivity be affected by working overtime **(1)**
- There would be no delivery implications due to in-house production **(1)**
- Positive contribution / increased profit, but less than the outsourcing option **(1)**
- Will staff be willing to work overtime **(1)**

**(3 marks + 2 marks for calculation) Max 5**

**Option 2**

**Calculation (Max 2)**

Contribution would be an extra $2000 **(2 / 1OF)**
OR profit would be $38 150 **(2 / 1OF)**

**Evaluation (Max 3)**

- Need to consider the reliability of supply and delivery **(1)**
- Need to consider the quality of the products **(1)**
- Higher risk but larger financial returns **(1)**
- Effect on morale of staff if using external supplier **(1)**
- Possibility of loss of market to competitor **(1)**

**(3 marks + 2 marks for calculation) Max 5**
**Overall max 10 marks** **[10]**

**(ii)** **1 mark** for decision between option 1 and 2.
**2 marks** for justification of option chosen **[3]**

**(d) (i)** Advantages:

- Assists with planning for the future **(1)**
- Helps to monitor performance **(1)**
- Compares budget and actual, identifying, variances enabling corrective action to be taken **(1)**
- Enables delegation to departments **(1)**
- Assists with decision making **(1)**
- Helps with responsibility accounting / enables assessment of managers **(1)**
- May motivate staff **(1)**

**Max 3** **[3]**

**(ii)** Disadvantages:

- Budgets are an estimate and could be inaccurate **(1)**
- Budget are time consuming and/or expensive to create and monitor **(1)**
- Could lead to conflict between departments **(1)**
- Could demotivate employees **(1)**
- May have to employ specialist staff **(1)**
- Budget may be set an unrealistic level **(1)**
- Does not take account of unforeseen circumstances **(1)**
- Can restrict staff innovation **(1)**

**Max 3** **[3]**

**[Total: 30]**

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