Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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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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)	AB Limited Income statement for the year ended 31 December 2018 $ Revenue **W1** 662 100 **(1)** Cost of sales **W2** (306 300) **(2)** Gross profit for the year 355 800 Administrative expenses **W3** (117 000) **(3)** Distribution costs **W4** (195 600) **(3)** Profit from operations 43 200 Finance costs (2 200 + 4 000) (6 200) **(1)** Profit for the year 37 000 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 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 400 **(1)** 117 000 **W4** Distribution costs 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%) 9 200 **(1)** 195 600	**10**

Question	Answer			Marks
1(b)	AB Limited Statement of financial position at 31 December 2018			**9**
		$		
	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)**	
		145 800		
	Current assets			
	Inventory	62 000		
	Trade and other receivables (92 400 – 400 – 4 500)	87 500	**(1)**	
		149500		
	Total assets	295300		
	Equity and liabilities			
	Share capital and reserves			
	Share capital ($1 ordinary shares)	80000		
	Share premium	35000		
	Retained earnings (19 100 + 37 000 **(1)OF** – 1 700 **(1)**)	54400		
		169400		
	Non-current liabilities			
	6% debentures	80000	**(1)**	
	Current liabilities			
	Trade and other payables (36 600 + 4 000)	40600	**(1)**	
	Cash and cash equivalents	5300	**(1)**	
		45900		
	Total equity and liabilities	295300		

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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 |	\$			\$	| | 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)** | | | 5 327 | | | 5 327 | | | | | | Balance b/d * | 1 727 | **(1) OF**	**5**
2(b)	Bank reconciliation | Balance per bank statement | (1 875) | | | Add uncleared lodgements | 560 | **(1)** | | Less unpresented cheques | (340) | **(1)** | | Less direct debit correction | (72) | **(1)** | | Balance per cash book * | (1 727) | **(1) OF** | **(*) 1 mark if figure is correct/same amount as cash book from (a)**	**4**

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 Draft profit 10 340 Damaged inventory (800 – (900 – 150)) (50) **(1)** Goods on sale or return (2800-2000) (800) **(1)** Accrued rental (1 200) **(1)** Revised profit 8 290 **(1) OF**	**4**

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**

Question	Answer	Marks
3(c)	<table><tr><td></td><td>$</td><td></td><td></td><td>$</td><td></td></tr><tr><td>Motor vehicles</td><td>6 000</td><td>**</td><td>Motor vehicles</td><td>3 000</td><td>** **(1) for both**</td></tr><tr><td>Irrecoverable debt</td><td>2 000</td><td>**(1)**</td><td>Capital account – Adam</td><td>2 000</td><td>**#**</td></tr><tr><td>Provision for doubtful debts</td><td>1 000</td><td>**(1)**</td><td>Capital account – Bilal</td><td>2 000</td><td>**# (1) for all three**</td></tr><tr><td></td><td></td><td></td><td>Capital account – Chan</td><td>2 000</td><td>**#**</td></tr><tr><td></td><td>9 000</td><td></td><td></td><td>9 000</td><td></td></tr></table>	4
3(d)	<table><tr><td></td><td>$</td><td></td></tr><tr><td>Capital account</td><td>20 000</td><td></td></tr><tr><td>Current account</td><td>(4 000)</td><td></td></tr><tr><td>Motor vehicle</td><td>(30 000)</td><td>**(1)**</td></tr><tr><td>Profit for the year</td><td>24 000</td><td></td></tr><tr><td>Loan account</td><td>80 000</td><td></td></tr><tr><td>Interest on loan</td><td>4 000</td><td></td></tr><tr><td>Loss on revaluation</td><td>(2 000)</td><td></td></tr><tr><td>Goodwill</td><td>8 000</td><td>**(1)**</td></tr><tr><td></td><td>100 000</td><td></td></tr><tr><td>Loan account</td><td>(45 000)</td><td></td></tr><tr><td>Due to Bilal from bank account</td><td>55 000</td><td>**(1) CF**</td></tr></table>	3
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

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) — **7**

		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)**
	80 090	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**
		45 440	34 650	0		
		(1) OF	**(1) OF**			

4(c) — **4**

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)**

Question	Answer	Marks
4(d)	$ Direct costs 1 330.00 Overheads Assembly dept 12.5 × $14.20 177.50 **(1) OF** Overheads Printing dept 6 × $6.30 37.80 **(1) OF** Total cost 1 545.30 **(1) OF** Profit $\frac{1}{3}$ of cost 515.10 **(1) OF**	**4**
4(e)	$ Assembly department 1.5 hours less than forecast: Under-absorbed **(1)** 1.5 × $14.20 **(OF)** 21.30 **(1) OF** Printing department 2 hours more than forecast Over-absorbed **(1)** 2 × $6.30 **(OF)** (12.60) **(1) OF** Overheads under-absorbed 8.70 **(1) OF**	**5**

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**

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