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**ACCOUNTING**

**9706/22**

Paper 2 AS Level Structured Questions

**March 2019**

MARK SCHEME

Maximum Mark: 90

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**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 March 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level components and some Cambridge O Level components.

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This document consists of **16** printed pages.

**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)	<p>K Limited Income statement for the year ended 30 September 2018</p> <table> <tr> <td></td><td>\$000</td><td></td></tr> <tr> <td>Revenue</td><td>936</td><td></td></tr> <tr> <td>Cost of sales <b>W1</b></td><td><u>(590)</u></td><td>(1)</td></tr> <tr> <td>Gross profit</td><td>346</td><td>(1) OF</td></tr> <tr> <td>Administrative expenses <b>(W3)</b></td><td><u>(54)</u></td><td>(2) OF</td></tr> <tr> <td>Distribution costs <b>(W2)</b></td><td><u>(55)</u></td><td>(2) OF</td></tr> <tr> <td>Profit from operations</td><td>237</td><td>(1) OF</td></tr> <tr> <td>Finance costs <b>(W4) (1*)</b></td><td><u>(6)</u></td><td>(1)</td></tr> <tr> <td>Profit for year</td><td><u>231</u></td><td>(1) OF</td></tr> </table> <p><b>(1*)</b> for recording debenture interest as 'finance costs')</p> <p><b>W1</b> Cost of sales = As per trial balance \$587 000 + Carriage inwards \$3000 = \$590 000</p> <p><b>W2</b> Distribution costs</p> <table> <tr> <td></td><td>\$000</td><td></td></tr> <tr> <td>As per trial balance</td><td>46</td><td></td></tr> <tr> <td>Less carriage inwards</td><td><u>(3)</u></td><td>(1)</td></tr> <tr> <td>Depreciation</td><td><u>12</u></td><td>(1)</td></tr> <tr> <td></td><td>55</td><td></td></tr> </table> <p><b>W3</b> Administration expenses</p> <table> <tr> <td></td><td>\$000</td><td></td></tr> <tr> <td>As per trial balance</td><td>42</td><td></td></tr> <tr> <td>Less insurance prepaid <math>\left(\frac{2}{3} \times 9\right)</math></td><td><u>(6)</u></td><td>(1)</td></tr> <tr> <td>Depreciation <math>2\frac{1}{2}\% \times (980 - 260)</math></td><td><u>18</u></td><td>(1)</td></tr> <tr> <td></td><td>54</td><td></td></tr> </table> <p><b>W4</b> Finance costs: <math>(8\% \times 75) = 6</math></p>		\$000		Revenue	936		Cost of sales <b>W1</b>	<u>(590)</u>	(1)	Gross profit	346	(1) OF	Administrative expenses <b>(W3)</b>	<u>(54)</u>	(2) OF	Distribution costs <b>(W2)</b>	<u>(55)</u>	(2) OF	Profit from operations	237	(1) OF	Finance costs <b>(W4) (1*)</b>	<u>(6)</u>	(1)	Profit for year	<u>231</u>	(1) OF		\$000		As per trial balance	46		Less carriage inwards	<u>(3)</u>	(1)	Depreciation	<u>12</u>	(1)		55			\$000		As per trial balance	42		Less insurance prepaid $\left(\frac{2}{3} \times 9\right)$	<u>(6)</u>	(1)	Depreciation $2\frac{1}{2}\% \times (980 - 260)$	<u>18</u>	(1)		54		10
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1(b)	<div>Statement of changes in equity for the year ended 30 September 2018</div> <table><thead><tr><th></th><th>Share capital \$000</th><th></th><th>Share premium \$000</th><th></th><th>Retained earnings \$000</th><th></th><th>Total \$000</th><th></th></tr></thead><tbody><tr><td>Balance, 1 October 2017 (W1)</td><td>300</td><td></td><td>30</td><td></td><td>106</td><td></td><td>436</td><td>(1)</td></tr><tr><td>Rights issue (W1)</td><td>150</td><td>(1)</td><td>60</td><td>(1)</td><td></td><td></td><td>210</td><td></td></tr><tr><td>Dividends paid</td><td></td><td></td><td></td><td></td><td>(60)</td><td>(1)</td><td>(60)</td><td></td></tr><tr><td>Profit for the year</td><td></td><td></td><td></td><td></td><td>231</td><td>(1) OF</td><td>231</td><td></td></tr><tr><td>Balance, 30 September 2018</td><td><u>450</u></td><td></td><td><u>90</u></td><td></td><td><u>277</u></td><td></td><td><u>817</u></td><td>(1) OF</td></tr></tbody></table> <div>W1 Rights issue and opening balances</div> <div>Rights issue: 1 for 2 leading to share capital 450: so issue was <math>\frac{1}{3} \times 450 = 150</math></div> <div>Share premium: 20 cents on each 50 cents share = <math>\frac{2}{5} \times 150 = 60</math></div> <div>Opening share capital: <math>450 - 150 = 300</math></div> <div>Opening share premium: <math>90 - 60 = 30</math></div>		Share capital \$000		Share premium \$000		Retained earnings \$000		Total \$000		Balance, 1 October 2017 (W1)	300		30		106		436	(1)	Rights issue (W1)	150	(1)	60	(1)			210		Dividends paid					(60)	(1)	(60)		Profit for the year					231	(1) OF	231		Balance, 30 September 2018	<u>450</u>		<u>90</u>		<u>277</u>		<u>817</u>	(1) OF	6
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1(c)	<p><b>Rights issue (Max 2)</b></p> <p>Rights issue does not dilute ownership. (1)  Rights issue is attractive to shareholders. (1)  Rights issue may be less expensive than debentures. (1)  However, there has been a recent rights issue. Shareholders may not want another one. (1)  May result in a fall in the share price. (1)  Payment of dividends is discretionary. (1)</p> <p><b>Debentures (Max 2)</b></p> <p>Debentures increase debt. (1)  Lender may require security. (1)  Regular payment of interest and capital. (1)  Debentures need to be repaid. (1)  However, debentures do not affect ownership. (1)  No voting rights to debenture holders. (1)</p> <p><b>Accept other valid points.</b>  1 mark for decision + <b>Max 4</b> marks for justification</p>	<b>5</b>
1(d)	<p>Effect on liquidity</p> <p>Both changes will have an adverse effect on liquidity (1)  Suppliers accounts are now being settled more quickly than customers pay their accounts. (1)  Both ratios are now <u>worse</u> than industry average. (1)</p> <p><b>Accept other valid points.</b>  <b>Max 3 marks</b></p>	<b>3</b>

Question	Answer	Marks
1(e)	<p>Put in place measures to more closely monitor trade receivable accounts (frequent reminders; issuing of statements of account). <b>(1)</b></p> <p>Refuse credit terms to late payers. <b>(1)</b></p> <p>Offer cash discounts to encourage prompt payment. <b>(1)</b></p> <p>Charge interest on overdue accounts <b>(1)</b></p> <p>Ask for cash with order / increase cash sales <b>(1)</b></p> <p><b>Accept other valid points.</b> <b>Max 3 marks</b></p>	<b>3</b>
1(f)	<p>Delaying payments to suppliers may mean the loss of cash discounts which would have an impact on profits. <b>(1)</b></p> <p>Cause some suppliers to refuse credit terms which would have an adverse effect on liquidity. <b>(1)</b></p> <p>Force the business to find alternative suppliers who are unable to supply goods on the same quality. <b>(1)</b></p> <p>May create a bad relationship with suppliers. <b>(1)</b></p> <p>May incur interest charges <b>(1)</b></p> <p><b>Accept other valid points.</b> <b>Max 3 marks</b></p>	<b>3</b>

Question	Answer	Marks
2(a)	<p>Death / ill health / retirement of a partner (any one) <b>(1)</b></p> <p>A partner has been declared bankrupt <b>(1)</b></p> <p>Disagreement between partners <b>(1)</b></p> <p>Insufficient level of profits / incurring losses <b>(1)</b></p> <p>Insufficient levels of cash reserves <b>(1)</b></p> <p>Partnership has achieved its purpose <b>(1)</b></p> <p><b>Accept other valid points.</b> <b>Max 4 marks</b></p>	<b>4</b>



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2(b)	Mira, Sasha and Peta Realisation account					5																																																			
<table><tr><td></td><td>\$</td><td></td><td></td><td>\$</td><td></td></tr><tr><td>Fixtures and fittings</td><td>45 200</td><td rowspan="5">}</td><td>Capital account - Sasha</td><td>4 500</td><td>(1)</td></tr><tr><td>Motor vehicles</td><td>22 000</td><td>Trade payables</td><td>26 400</td><td rowspan="4">}</td><td rowspan="4">(1)</td></tr><tr><td>Inventory</td><td>20 600</td><td>Bank – non-current assets</td><td>64 300</td></tr><tr><td>Trade receivables</td><td>42 800</td><td>Bank – inventory</td><td>19 800</td></tr><tr><td>Bank – trade payables</td><td>26 000</td><td>Bank – trade receivables</td><td>40 500</td></tr><tr><td>Bank – Dissolution costs</td><td>3 700</td><td>(1)</td><td>Capital account      Mira <math>\frac{2}{5}</math></td><td>1 920</td><td rowspan="4">}</td><td rowspan="4">(1) OF</td></tr><tr><td></td><td></td><td></td><td>Sasha <math>\frac{2}{5}</math></td><td>1 920</td></tr><tr><td></td><td></td><td></td><td>Peta <math>\frac{1}{5}</math></td><td>960</td></tr><tr><td></td><td>160 300</td><td></td><td></td><td>160 300</td></tr></table>							\$			\$		Fixtures and fittings	45 200	}	Capital account - Sasha	4 500	(1)	Motor vehicles	22 000	Trade payables	26 400	}	(1)	Inventory	20 600	Bank – non-current assets	64 300	Trade receivables	42 800	Bank – inventory	19 800	Bank – trade payables	26 000	Bank – trade receivables	40 500	Bank – Dissolution costs	3 700	(1)	Capital account      Mira $\frac{2}{5}$	1 920	}	(1) OF				Sasha $\frac{2}{5}$	1 920				Peta $\frac{1}{5}$	960		160 300			160 300
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2(c)	<div>Mira, Sasha and Peta Capital accounts</div> <table><tr><td>Details</td><td>Mira</td><td>Sasha</td><td>Peta</td><td></td><td>Details</td><td>Mira</td><td>Sasha</td><td>Peta</td></tr><tr><td></td><td>\$</td><td>\$</td><td>\$</td><td></td><td></td><td>\$</td><td>\$</td><td>\$</td></tr><tr><td>Realisation account</td><td></td><td>4 500</td><td></td><td>(1)</td><td>Balance b/d</td><td>45 500</td><td>42 800</td><td>14 000</td></tr><tr><td>Realisation account</td><td>1 920</td><td>1 920</td><td>960</td><td>(1) OF</td><td></td><td></td><td></td><td></td></tr><tr><td>Bank</td><td>43 580</td><td>36 380</td><td>13 040</td><td></td><td></td><td></td><td></td><td></td></tr><tr><td></td><td>45 500</td><td>42 800</td><td>14 000</td><td></td><td></td><td>45 500</td><td>42 800</td><td>14 000</td></tr></table>	Details	Mira	Sasha	Peta		Details	Mira	Sasha	Peta		\$	\$	\$			\$	\$	\$	Realisation account		4 500		(1)	Balance b/d	45 500	42 800	14 000	Realisation account	1 920	1 920	960	(1) OF					Bank	43 580	36 380	13 040							45 500	42 800	14 000			45 500	42 800	14 000	2
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Question	Answer	Marks
2(e)	Credit control was not up-to-date. <b>(1)</b> There were uncorrected errors in the receivables ledger overstating certain accounts. <b>(1)</b> Becoming aware that the partnership was ceasing, certain receivables avoided paying. <b>(1)</b> Customer bankrupt <b>(1)</b> May have been some irrecoverable debts <b>(1)</b> Offered cash discount <b>(1)</b>  <b>Accept other valid points.</b> <b>Max 2</b>	<b>2</b>

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3(a)(i)	<p style="text-align: center;">General expenses</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Opening balance prepaid</td><td style="text-align: right;">480</td><td>(1)</td></tr> <tr> <td>Payment</td><td style="text-align: right;">12 400</td><td></td></tr> <tr> <td>Closing balance due</td><td style="text-align: right;">1 210</td><td>(1)</td></tr> <tr> <td></td><td style="text-align: right; border-top: 1px solid black;">14 090</td><td>(1) OF</td></tr> </table>		\$		Opening balance prepaid	480	(1)	Payment	12 400		Closing balance due	1 210	(1)		14 090	(1) OF	<b>3</b>						
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3(a)(ii)	<p style="text-align: center;">Insurance</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Premiums paid</td><td style="text-align: right;">6 480</td><td></td></tr> <tr> <td>Less prepayment <math>\frac{1}{6} \times \\$630</math></td><td style="text-align: right;">(105)</td><td></td></tr> <tr> <td></td><td style="text-align: right; border-top: 1px solid black;">6 375</td><td>(1)</td></tr> </table>		\$		Premiums paid	6 480		Less prepayment $\frac{1}{6} \times \$630$	(105)			6 375	(1)	<b>1</b>									
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3(a)(iii)	<p style="text-align: center;">Rent receivable</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Rent received</td><td style="text-align: right;">5 460</td><td></td></tr> <tr> <td>Add amount due <math>\frac{1}{3} \times \\$1200</math></td><td style="text-align: right;">400</td><td></td></tr> <tr> <td></td><td style="text-align: right; border-top: 1px solid black;">5 860</td><td>(1)</td></tr> </table>		\$		Rent received	5 460		Add amount due $\frac{1}{3} \times \$1200$	400			5 860	(1)	<b>1</b>									
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3(a)(iv)	<p style="text-align: center;">Closing inventory at 31 December 2018</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td></td><td style="text-align: right;">\$</td><td></td></tr> <tr> <td>Valuation at cost</td><td style="text-align: right;">11 400</td><td></td></tr> <tr> <td>Valuation of damaged products</td><td></td><td></td></tr> <tr> <td>Cost <math>\\$840 \times \frac{2}{3} = 560</math></td><td></td><td>(1)</td></tr> <tr> <td>NRV <math>\\$840 - \\$360 = 480</math></td><td></td><td>(1)</td></tr> <tr> <td>Reduction in value</td><td style="text-align: right;">(80)</td><td></td></tr> <tr> <td>Closing valuation</td><td style="text-align: right; border-top: 1px solid black;">11 320</td><td>(1) OF</td></tr> </table>		\$		Valuation at cost	11 400		Valuation of damaged products			Cost $\$840 \times \frac{2}{3} = 560$		(1)	NRV $\$840 - \$360 = 480$		(1)	Reduction in value	(80)		Closing valuation	11 320	(1) OF	<b>3</b>
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3(b)	Accounting concepts: accruals (matching) (1); prudence (1)	<b>2</b>																					

Question	Answer	Marks															
3(c)	<p>The original provision for doubtful debts was: <math>\frac{5}{95} \times \\$34\,200 = \\$1800</math> <b>(1)</b></p> <p>The new provision for doubtful debts will be:</p> <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Total balances of trade receivables at 31 December 2018</td><td>37 200</td><td></td></tr> <tr> <td>Less irrecoverable debts (\$680 + \$360)</td><td>1 040</td><td></td></tr> <tr> <td>Net</td><td><u>36 160</u></td><td><b>(1)</b></td></tr> <tr> <td>New provision for doubtful debts (5% × \$36 160)</td><td>1 808</td><td><b>(1) OF</b></td></tr> </table> <p>Entry in income statement will be for an increase <b>(1) OF \$8 (1) OF</b></p>		\$		Total balances of trade receivables at 31 December 2018	37 200		Less irrecoverable debts (\$680 + \$360)	1 040		Net	<u>36 160</u>	<b>(1)</b>	New provision for doubtful debts (5% × \$36 160)	1 808	<b>(1) OF</b>	<b>5</b>
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**PUBLISHED**

Question	Answer						Marks																				
4(a)							8																				
		Product A		Product B		Total																					
		\$		\$		\$																					
	revenue	600 000	(1)	480 000	(1)	1 080 000																					
	direct materials	140 000		96 000		236 000																					
	direct labour	150 000		126 000		276 000																					
	variable overheads	100 000		90 000		190 000																					
	total contribution	210 000	(1)	168 000	(1)	378 000																					
	fixed costs	130 000		120 000	(1) both	250 000																					
	budgeted profit	80 000	(1) OF	48 000	(1) OF	128 000 (1) OF																					
	OR																										
		Product A		Product B		Total																					
	unit contribution	\$21	(1)	\$28	(1)																						
	no of units	× 10 000		× 6 000																							
total contribution	\$210 000	(1)	\$168 000	(1)	\$378 000																						
fixed costs	\$130 000		\$120 000	(1) both	\$250 000																						
budgeted profit	\$80 000	(1) OF	\$48 000	(1) OF	\$128 000 (1) OF																						
4(b)	<table><tr><td></td><td>Product A</td><td>Product B</td><td>Total</td></tr><tr><td></td><td>\$</td><td>\$</td><td>\$</td></tr><tr><td>Revised unit contribution</td><td>21 – 4 = 17 (1) OF</td><td>28 – 4 = 24 (1) OF</td><td></td></tr><tr><td>Revised fixed costs, total for the year</td><td>130 000 – 75 000 (1) + 21 000 (1) = 76 000</td><td>120 000 – 25 000 (1) + 7 000 (1) = 102 000</td><td></td></tr><tr><td>Revised budgeted profit for the year</td><td>(17 × 10 000) – 76 000 = 94 000 (1) OF</td><td>(24 × 6 000) – 102 000 = 42 000 (1) OF</td><td>136 000 (1) OF</td></tr></table>							Product A	Product B	Total		\$	\$	\$	Revised unit contribution	21 – 4 = 17 (1) OF	28 – 4 = 24 (1) OF		Revised fixed costs, total for the year	130 000 – 75 000 (1) + 21 000 (1) = 76 000	120 000 – 25 000 (1) + 7 000 (1) = 102 000		Revised budgeted profit for the year	(17 × 10 000) – 76 000 = 94 000 (1) OF	(24 × 6 000) – 102 000 = 42 000 (1) OF	136 000 (1) OF	9
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Question	Answer	Marks
4(c)	<p><b>Financial factors: Max 3</b></p> <p>If the production level is as budgeted, machine rental is (\$8000) lower / profit is (\$8000) more with the new agreement. <b>(1)</b></p> <p>Fixed costs will reduce by \$72 000 <b>(1)</b></p> <p>If the production level is below budget, the saving is greater with the new agreement. Therefore, the new agreement reduces risk. <b>(1)</b></p> <p>Even if production levels rise and increase the total cost, unit contribution is still positive. <b>(1)</b></p> <p>If production levels rise, machine rental will become higher than before under the new agreement. <b>(1)</b></p> <p>The removal of the old machinery and installation of the new may incur additional costs. <b>(1)</b></p> <p>There could be costs of staff training with the new machinery. <b>(1)</b></p> <p><b>Non-financial factors: Max 3</b></p> <p>The new agreement could mean new machinery which is more up-to-date / reliable / economical to run. <b>(1)</b></p> <p>The removal of the old machinery and installation of the new would be very disruptive . <b>(1)</b></p> <p>There could be teething problems with the new machinery. <b>(1)</b></p> <p>There would be a learning curve. <b>(1)</b></p> <p>Will new machinery produce equivalent quality</p> <p>The new machinery has unknown reliability/availability of spare parts. <b>(1)</b></p> <p><b>Accept other valid points.</b>  <b>Overall max 6 for justification + (1) for decision</b></p>	7

Question	Answer	Marks
4(d)	<p>The business can calculate contribution per unit of scarce resource. <b>(1)</b>          Thus, it can rank its products <b>(1)</b>          and prepare a production schedule <b>(1)</b>          to maximise profit <b>(1)</b>          by prioritising products with the highest contribution per unit of scarce resource. <b>(1)</b></p> <p><b>Max 4</b></p>	<b>4</b>
4(e)	<p>Make or buy decisions <b>(1)</b></p> <p>Accepting orders at below normal selling price <b>(1)</b></p> <p>Closing department / discontinuing product <b>(1)</b></p> <p><b>Accept other valid points.</b>  <b>Max 2</b></p>	<b>2</b>