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**ACCOUNTING**

**9706/21**

Paper 2 Structured Questions

**May/June 2017**

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 will not enter into discussions about these mark schemes.

Cambridge is publishing the mark schemes for the May/June 2017 series for most Cambridge IGCSE<sup>®</sup>, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

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

Question	Answer	Marks
1(f)	<div style="text-align: right; margin-right: 20px;">\$</div> <div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 20px;">Original profit</div> <div style="text-align: right;">71 000</div> </div> <div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 20px;">Error 1</div> <div style="text-align: right;">(90) (1)</div> </div> <div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 20px;">Error 2</div> <div style="text-align: right;">(100) (1)</div> </div> <div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 20px;">Error 3</div> <div style="text-align: right;">1 200 (1)</div> </div> <div style="display: flex; justify-content: flex-end;"> <div style="text-align: right; margin-right: 20px;">Revised gross profit</div> <div style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">72 010 (1)OF</div> </div>	4
1(g)	<p>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.</p> <p>Revenue reserves can be used to pay cash dividends from retained profits.</p> <p>Capital reserves help protect creditors.</p> <p>Capital reserves cannot be used to pay cash dividends but can be used for bonus shares.</p> <p><b>(2 marks) × 2 points</b> – 1 mark for basic point and 1 for development</p>	4
	<b>Total:</b>	<b>30</b>

Question	Answer	Marks																																																							
2(a)	<div>Realisation account</div> <table><tr><td></td><td>\$</td><td></td><td>\$</td><td></td></tr><tr><td>Premises</td><td>40 000</td><td>Trade payables</td><td>9 800</td><td></td></tr><tr><td>Machinery</td><td>32 000</td><td>Bank (trade receivables) **</td><td>12 600</td><td></td></tr><tr><td>Motor vehicles</td><td>18 000</td><td>Bank (inventory) **</td><td>15 000</td><td></td></tr><tr><td>Inventory</td><td>18 600</td><td>Bank (machinery) **</td><td>35 000</td><td>(1**)</td></tr><tr><td>Trade receivables</td><td>13 100</td><td>Amit (premises)</td><td>30 000</td><td>(1)</td></tr><tr><td>Bank (trade payables)</td><td>9 800</td><td>Binu (motor vehicle)</td><td>6 500</td><td>(1)</td></tr><tr><td>Dissolution expenses</td><td>6 300</td><td>Bank (motor vehicles)</td><td>12 000</td><td>(1)</td></tr><tr><td></td><td></td><td>Capital account – Amit #</td><td>10 140</td><td></td></tr><tr><td></td><td></td><td>Capital account – Binu #</td><td>6 760</td><td>(1#)</td></tr><tr><td></td><td><u>137 800</u></td><td></td><td><u>137 800</u></td><td></td></tr></table>		\$		\$		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	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#)		<u>137 800</u>		<u>137 800</u>		6
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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)	<p>It enables checking transactions through the use of a trial balance and control accounts.</p> <p>It enables the production of the income statement and statement of financial position to be compiled more easily.</p> <p>It shows the amount due to individual customers and suppliers thus avoiding overpayment.</p> <p>Helps guard against errors / fraud.</p> <p><b>(1 mark) × 3 points</b></p>	3																																																				
3(b)	<p style="text-align: center;">Sales ledger control account</p> <table><tr><td>Description</td><td>Add (\$)</td><td>Less (\$)</td><td>Total (\$)</td></tr><tr><td>Opening balance</td><td></td><td></td><td>33 205</td></tr><tr><td>Error in sales journal</td><td>1 649</td><td>(1)</td><td></td></tr><tr><td>Irrecoverable debt omitted</td><td></td><td>420</td><td>(1)</td></tr><tr><td>Credit omitted</td><td></td><td>160</td><td>(1)</td></tr><tr><td>Totals</td><td>1 649</td><td>580</td><td>1 069</td></tr><tr><td>Corrected balance</td><td></td><td></td><td>34 274</td></tr></table> <p style="text-align: center;">Sales ledger balances</p> <table><tr><td>Description</td><td>Add (\$)</td><td>Less (\$)</td><td>Total (\$)</td></tr><tr><td>Opening balance</td><td></td><td></td><td>34 524</td></tr><tr><td>Less error in cheque entry</td><td></td><td>90</td><td>(1)</td></tr><tr><td>Less credit omitted</td><td></td><td>160</td><td>(1)</td></tr><tr><td>Total</td><td></td><td>250</td><td>(250)</td></tr><tr><td>Corrected balance</td><td></td><td></td><td>34 274 (1) both</td></tr></table>	Description	Add (\$)	Less (\$)	Total (\$)	Opening balance			33 205	Error in sales journal	1 649	(1)		Irrecoverable debt omitted		420	(1)	Credit omitted		160	(1)	Totals	1 649	580	1 069	Corrected balance			34 274	Description	Add (\$)	Less (\$)	Total (\$)	Opening balance			34 524	Less error in cheque entry		90	(1)	Less credit omitted		160	(1)	Total		250	(250)	Corrected balance			34 274 (1) both	6
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3(c)	<p>A customer has overpaid in error</p> <p>A credit has been given and the customer has not taken</p> <p>A contra has been put through but the customer has ignored it.</p> <p>A customer has paid in advance</p> <p>Not taking a discount</p> <p>There is a deposit on goods.</p> <p>Customer paid for the goods before returning them.</p> <p>Customer overpaid and invoice</p> <p><b>(1 mark) × 3 points</b></p>	3																																																				
3(d)	<p>May improve trade receivables collection period.</p> <p>Improve cash flows</p> <p>Meena may lose customers</p> <p>May need tighter credit control which may increase cost</p> <p><b>Decision (1 mark)</b></p> <p><b>Justification (2 marks)</b></p>	3																																																				
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4(a)	<table><tr><td></td><td>\$</td><td>\$</td></tr><tr><td>Selling price</td><td></td><td>5.25</td></tr><tr><td>Direct materials</td><td>0.50</td><td></td></tr><tr><td>Direct labour</td><td>0.75</td><td></td></tr><tr><td>Direct expenses</td><td><u>0.25</u></td><td><u>1.50</u></td></tr><tr><td></td><td></td><td><u>3.75</u></td></tr></table> <p>Contribution per unit: 3.75 <b>(1)</b> × 16 000 units <b>(1)</b> = \$60 000 <b>(1)</b></p>		\$	\$	Selling price		5.25	Direct materials	0.50		Direct labour	0.75		Direct expenses	<u>0.25</u>	<u>1.50</u>			<u>3.75</u>	3
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4(b)(i)	<table><tr><td></td><td>\$</td></tr><tr><td>Fixed costs</td><td>60 000</td></tr><tr><td>+ Profit</td><td><u>75 000</u></td></tr></table> <p>Contribution required: 135 000 <b>(1)OF</b> ÷ 3.75 = 36 000 units <b>(1OF)</b></p>		\$	Fixed costs	60 000	+ Profit	<u>75 000</u>	2												
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4(b)(ii)	$\frac{\$3.75^*}{\$5.25^*} = 71.43\% \text{ (1)OF}$ <p style="text-align: right;"><b>*1 OF both</b></p>	2																		
4(c)	It shows how much contribution is earned from each \$1 of sales revenue <b>(1)</b>	1																		
4(d)(i)	It represents the margin of safety <b>(1)</b>	1																		
4(d)(ii)	The amount by which actual sales can fall short of the budgeted sales before he reaches break-even point <b>(1)</b> and then makes no profit <b>(1)</b> .	2																		

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4(e)	<table><tr><td></td><td>Units</td><td>\$</td><td></td></tr><tr><td>Total revenue (TR)</td><td>0,</td><td>0</td><td></td></tr><tr><td></td><td>0,</td><td>189 000</td><td>36 000 units × \$5.25</td></tr><tr><td>Fixed costs (FC)</td><td>0,</td><td>60 000</td><td></td></tr><tr><td>Total costs (TC)</td><td>0,</td><td>60 000</td><td></td></tr><tr><td></td><td>36 000,</td><td>114 000</td><td>36 000 units × \$1.50 = 54 000 + 60 000</td></tr></table> <p>The chart is a break-even graph with 'Output in units' on the x-axis (0 to 40,000) and '\$000s' on the y-axis (0 to 200). It features three lines: a horizontal line for Fixed Costs (FC) at \$60,000; a line for Total Costs (TC) starting at \$60,000 and increasing linearly; and a line for Total Revenue (TR) starting at the origin (0,0) and increasing linearly. The break-even point is marked at the intersection of the TR and TC lines, corresponding to 16,000 units and \$80,000. The area above the break-even point is shaded and labeled 'Profit area', while the area below is shaded and labeled 'Loss area'. The TR line is labeled (1), the TC line is labeled (1), and the FC line is labeled (1). An arrow points to the break-even point.</p>		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	7
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<p>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</p>																										

Question	Answer	Marks
4(f)	<p>Limitations:</p> <ul style="list-style-type: none"> <li>• Some costs are not easily classified as fixed or variable.</li> <li>• Some costs are semi-variable.</li> <li>• It assumes fixed costs stay the same.</li> <li>• Straight lines can be misleading – discounts can cause curved lines.</li> <li>• A chart can be time consuming to prepare.</li> <li>• It assumes the selling price is constant at all levels of output.</li> <li>• It can be misleading for those with limited accounting knowledge.</li> <li>• Can only be applied to one product at a time</li> </ul> <p><b>(1 mark)</b> × any 3 limitations, max 3</p>	<b>3</b>
4(g)	<p>New contribution = <math>6.00 - 1.50 = \\$4.50</math> <b>(1)</b></p> <p>Fixed cost    \$60 000          Profit        <u>\$75 000</u>          Target        135 000 <b>(1)</b></p> <p>Sales per month = <math>(135\,000 / 4.50)</math> <b>(1)</b> <b>OF</b> = <math>30\,000 / 12</math> <b>(1)</b> = 2500 units <b>(1)</b> <b>OF</b></p>	<b>5</b>
4(h)	<p>Proceed because</p> <ul style="list-style-type: none"> <li>• It covers the budgeted total costs and provides a profit.</li> <li>• It provides a positive contribution.</li> </ul> <p>Need to bear in mind</p> <ul style="list-style-type: none"> <li>• The market price of similar products.</li> <li>• How innovative is his product to justify the price increase / will customers expect higher quality for higher price.</li> <li>• Will customers accept the increase or go elsewhere / decrease in demand.</li> <li>• Fixed costs are covered for now but they may change in the future.</li> <li>• Short term view – he could lose profit in the long term.</li> </ul> <p><b>Advice 1 mark</b>  <b>(1 mark)</b> × any 3 reasons, max 3</p>	<b>4</b>
	<b>Total:</b>	<b>30</b>