Cambridge International **AS & A Level** Cambridge Assessment International Education Cambridge International Advanced Subsidiary and Advanced Level

ACCOUNTING

9706/22 May/June 2018

Paper 2 Structured Questions 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.

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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.

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)	Responses could include:	6
	Profits will be shared in the partnership (1), whereas sole traders would be entitled to all the profits (1). Decision making may take longer as both partners will need to agree (1), whereas sole traders can make instant decisions (1). There is the risk of disagreement/conflict between partners (1), whereas sole traders would make decisions on their own (1). Each partner's actions are binding on all partners (1), whereas a sole trader has to account to no other parties for his actions (1) Control of the business by each partner maybe difficult (1) whereas the sole trader retains control over the business (1). 1 mark for identification + 1 mark for development. Max 3 advantages.	
1(b)	Cherie and Harry	5
	Income statement for the year ended 30 June 2017	
	\$ \$	
	Gross profit 40 960	
	Less inventory adjustment (380) (1)	
	Revised gross profit 40 580	
	Less	
	Operating expenses W1 26090 (1)	
	Depreciation W2 8 400 (1)	
	Loan interest W3 640 (1)	
	(35130)	
	Profit for the year 5450 (1) OF	
	 W1 Operating expenses: \$28 390 – prepayment (2/3 × \$3450) = \$26 090 W2 Depreciation: 20% × (\$64 000 – \$22 000) = \$8400 W3 Loan interest: 8% × \$8000 = \$640 Marks are for figures and position. 	

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Question	Answer	Marks
1(c)	Cherie and Harry Appropriation Account for the year ended 30 June 2017 \$ Profit for the year 5 450 Add interest on drawings Cherie 310 Harry <u>240</u> (1) for both	4
	⁵⁵⁰ 6000 Less interest on capital W1 Cherie (4 200) (2 800) Harry (2 800) (1) for both	
	Share of loss W2 (600) (2)OF / Cherie (600) (1)OF Harry (400) for both (1000) (1000)	
	W1 Interest on capitals: Cherie 10% × \$42 000 = \$4200 Harry 10% × \$28 000 = \$2800	
	W2 Shares of residual loss: ratio is Cherie: Harry\$42 000:\$28 000, i.e. 3:2Cherie $\frac{3}{5} \times $1 000 = £600$ Harry $\frac{2}{5} \times $1 000 = 400	

Question	Answer					Marks		
1(d)			Cur	rent Accounts				6
		Cherie \$	Harry \$		Cherie \$	Harry \$		
	Balance b/d		2 4 3 0	Balance b/d Interest on	1470			
	Drawings	18300	16820 (1)	loan Interest on	640		(1)OF	
	Interest on drawings	310	240 (1)OF	capital	4 200	2 800	(1)OF	
	Residual loss	600	400 (1)OF	Balances c/d	12900	17090		
	_	19210	19890		19210	19890		
	Balances b/d	12900	17090 (1)OF	-			_	
1(e)	Non-current asset turnover The non-current asset turnover raindustry average and/or has also The partnership may have purcha more efficiently. (1) Trade payables turnover The partnership is now paying su Whilst this may have been good to unnecessarily. (1)	atio has impro improved on ased new and ppliers faster for the supplie	ved from being we the previous year improved non-cur than in the previou r liquid funds that	eaker than the indu (1). rrent assets and/o us year and/or qu could have been u	ustry average or are using e icker than th used for othe	e to being existing no e industry er purpose	better than the on-current assets average (1) es are being used	4
	Accept other valid responses.	Max 2 marks	for each ratio.					

Question	Answer	Marks
1(f)	Responses could include:	5
	Advertising campaign May raise public perception (1) May increase sales of the business (1) Would incur costs (1) Reducing inventory levels Would lead to an increase in the rate of inventory turnover (1) Would reduce the risk of obsolete/damaged inventory (1) Would reduce customer choice/danger of not being able to fulfil orders (1) Award up to 2 marks for justification on each course of action and 1 mark for a decision. Accept other valid responses.	

Question			Answer				Marks
2(a)			M Limite	ed			6
	Statement of changes in equity	for the year ended	31 August 20)17			
		Ordinary share capital	Share premium	Revaluation reserve		Retained earnings	
	Balance at 1 September 2016 Rights issue	\$ 200 000 80 000 (1)	\$ 80 000 48 000	\$ 40 000 (1)		\$ 37 500	
	Interim dividend paid Revaluation Profit for the year			(40 000)	(1)	(44 800) (1)OF for row (8 000) (1) 22 500 (1)	
	Balance at 31 August 2017	280000	128 000	_		7 200	

Question	Answer	Marks
2(b)	Responses could include:	2
	To retain reserves in the most distributable or flexible form (1) Revenue reserves are needed to fund the payment of dividends (1)	
2(c)(i)	Quicker and cheaper than a new share issue (1) More likely to be fully subscribed than a new share issue (1) Results in a cash inflow (1) Does not have to be repaid (1) Would avoid any dilution of ownership (1) Max 2 Accept other valid points.	2
2(c)(ii)	Can lead to a fall in the share price (1) Accept other valid points.	1
2(d)	Long-term bank loan Interest on loan is fixed (1) whereas dividends are discretionary (1) Ownership remains the same therefore (1) No loss of control to existing shareholders (1) Funds received quicker (1) than a share issue (1) Repayments are fixed (1) enabling future planning (1) 1 mark for identification + 1 mark for development Accept other valid responses	4

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Question	Answer			
3(a)(i)	Plant and machinery at cost	3		
	Salance b/d 195 000 Disposal 35 000 (1) Bank 42 000 (1) Balance c/d 202 000 (237 000) Balance b/d 202 000 (1)OF Ealance c/d 202 000 (1)OF			
3(a)(ii)	Provision for depreciation on plant and machinery	3		
	S S S Disposal 7 000 (1) Balance b/d 68 250 Balance c/d 89 400 Income statement 28 150 (1)OF 96 400 96 400 Balance b/d 89 400 (1)OF			
3(b)	Responses could include:	3		
	Plant and machinery often loses more value in the earlier years of its life (1) due to usage (1) and maintenance costs may be higher in the later years (1)			
3(c)	It is written off as an expense (1) If the cost of the item is not material (1)	4		
	The revaluation method should be used (1) If the cost is significant (1)			
3(d)	Prudence (1) Not over-state the value of non-current assets or profit (1) or Consistency (1) Using the same depreciation method each year to assist comparisons (1) or Accruals/matching (1) To match the cost with the income earned by the asset (1)	2		

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Question		Answer	Marks
4(a)	TotalAccon\$Labour cost345 000Food & materials81 000Rent and rates86 000Light and heat48 000Advertising40 000Equipment60 000depreciation60 000Office costs150 000Total apportioned810 000overheads810 000Reapportionment61 000	Definition Leisure Conferences Support \$ \$ \$ \$ \$ 194 000 86 000 60 000 5000 42 000 11 000 26 000 2000 53 750 8600 21 500 2150 (1) row 22 400 12 800 9600 3200 (1) row 24 000 6000 10 000 - (1) row 10 000 45 000 5000 - (1) row 90 000 22 500 37 500 (1) row 436 150 191 900 169 600 12 350 (1)OF row 7410 1852 3088 (12 350) (1)OF row	8
	of Support	<u>443 560 193 752 <u>172 688</u> – (1)OF row</u>	
4(b)	Total overheads Budgeted guest days Overhead absorption rate per guest day	Accommodation Leisure Conferences \$ Conferences \$ 443 560 193 752 172 688 12 000 3 000 5 000 r \$ 364.58 \$34.54 (1) OF (1) OF (1) OF (1) OF	3
4(c)	Actual costs Absorbed Accommodation (36.96 × 13 200) Leisure (64.58 × 3 600) Conferences (34.54 × 5 800) Under/over absorbed	Accommodation Leisure Conferences \$ \$ \$ 522 000 215 000 196 000 487 872 232 488 200 332 34 128 (1)OF 17 488 (1)OF 4 332 (1)OF Under (1)OF Over (1)OF Over (1)OF	6

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Question	Answer	Marks
4(d)	Accommodation 4×36.96 147.84 Leisure 1×64.58 64.58 Conferences 3×34.54 103.62 316.04 X5 (1)	4
	Profit 1 580.20 Price to quote 2 370.30 (1)OF 3 950.50 (1)OF	
	Alternative presentation	
	Accommodation $5 \times 4 \times 36.96$ 739.20 Leisure $5 \times 1 \times 64.58$ 322.90 Conferences $5 \times 3 \times 34.54$ 518.10 Total costs1 580.20 (2)OFProfit2 370.30 (1)OFPrice to quote3 950.50 (1)OF	
4(e)	Responses could include: Price will still be lower than competitor (1)OF which will result in increased profits (1)OF Increased accommodation prices may reduce the demand for Leisure and Conferences (1) and may affect overall occupancy rates (1) May affect the reputation of the hotel and leisure complex (1) resulting in lost customers (1) Decision (1) plus 1 mark for identification plus 1 mark for development	5

Question	Answer	Marks
4(f)	Enables planning for the future (1) Encourages co-ordination/communication (1) Provides a framework for responsibility accounting (1) Enables variance analysis ensuring control (1) Encourages motivation of employees (1) Max 2 marks Accept other valid points.	2
4(g)	Based on estimates (1) Unrealistic budgets may de-motivate employees (1) May discourage innovation (1) Max 2 marks Accept other valid points.	2