
ACCOUNTING

9706/22

Paper 2 Structured Questions

May/June 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.

Cambridge International is publishing the mark schemes for the May/June 2019 series for most Cambridge IGCSE™, Cambridge International A and AS Level and Cambridge Pre-U components, and some Cambridge O Level components.

This document consists of **13** 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)	<div>Lee</div> <div>Income statement for the year ended 30 April 2019</div> <table><thead><tr><th></th><th>\$</th><th>\$</th><th></th></tr></thead><tbody><tr><td>Revenue</td><td></td><td>161 800</td><td>(1)</td></tr><tr><td>Opening inventory</td><td>12 500</td><td></td><td></td></tr><tr><td>Purchases</td><td><u>97 110</u></td><td></td><td>(1)</td></tr><tr><td></td><td>109 610</td><td></td><td></td></tr><tr><td>Less: Goods for own use</td><td><u>250</u></td><td></td><td>(1)</td></tr><tr><td></td><td>109 360</td><td></td><td></td></tr><tr><td>Add: Carriage inwards</td><td><u>670</u></td><td></td><td>(1)</td></tr><tr><td></td><td>110 030</td><td></td><td></td></tr><tr><td>Less Closing inventory</td><td><u>23 340</u></td><td></td><td>(1)</td></tr><tr><td>Cost of sales</td><td></td><td><u>86 690</u></td><td>(1)OF</td></tr><tr><td>Gross profit</td><td></td><td>75 110</td><td>(1)OF</td></tr><tr><td>Decrease in provision for doubtful debts</td><td></td><td><u>650</u></td><td>(1)</td></tr><tr><td></td><td></td><td>75 760</td><td></td></tr><tr><td>Other operating expenses</td><td></td><td>61 990</td><td></td></tr><tr><td>Loan interest</td><td></td><td>450</td><td>(1)</td></tr><tr><td>Irrecoverable debts</td><td></td><td>690</td><td>(1)</td></tr><tr><td>Depreciation: motor vehicles</td><td></td><td>6 000</td><td>(1)</td></tr><tr><td> office equipment</td><td></td><td><u>580</u></td><td>(1)</td></tr><tr><td>Profit for the year</td><td></td><td><u>6050</u></td><td>(1)OF</td></tr></tbody></table>		\$	\$		Revenue		161 800	(1)	Opening inventory	12 500			Purchases	<u>97 110</u>		(1)		109 610			Less: Goods for own use	<u>250</u>		(1)		109 360			Add: Carriage inwards	<u>670</u>		(1)		110 030			Less Closing inventory	<u>23 340</u>		(1)	Cost of sales		<u>86 690</u>	(1)OF	Gross profit		75 110	(1)OF	Decrease in provision for doubtful debts		<u>650</u>	(1)			75 760		Other operating expenses		61 990		Loan interest		450	(1)	Irrecoverable debts		690	(1)	Depreciation: motor vehicles		6 000	(1)	office equipment		<u>580</u>	(1)	Profit for the year		<u>6050</u>	(1)OF	13
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1(c)	<p>Benefits: (Max 2)</p> <p>Entitled to all profits (1)</p> <p>Quicker decision making (1)</p> <p>Full control of business operations (1)</p> <p>Drawbacks: (Max 2)</p> <p>Unlimited liability / no separate legal entity (1)</p> <p>All the risk / responsibilities (1)</p> <p>Limited opportunities for new ideas (1)</p> <p>Accept other valid points.</p>				4																								

Question	Answer	Marks
1(d)	<p>Decision (1)</p> <p><i>Limited company (Max 2)</i></p> <p>There would be a potential dividend cost of \$7500</p> <p>Payment of dividends is discretionary</p> <p>Lee retains control of the business as he is the majority shareholder</p> <p><i>Partnership (Max 2)</i></p> <p>Marvin's interest on capital will cost a fixed \$3000 per annum</p> <p>Marvin is entitled to 30% of future profits but will also have to bear 30% of future losses</p> <p>The partnership will have unlimited liability</p>	5

Question	Answer	Marks
2(a)	<p>Dr Irrecoverable debts (1)</p> <p>Cr Dixie (1)</p>	2
2(b)	<p>\$10 900 × 5% = \$545 (1)</p> <p>\$5 040 × 7.5% = \$378 (1)</p> <p><u>\$923</u> (2/1)OF</p>	4

Question	Answer	Marks																
2(c)	<div>Provision for doubtful debts account</div> <table><tr><td>2018 Dec 31</td><td>Income statement Balance c/d</td><td>\$ 177 923 <u>1100</u></td><td>(1) OF</td><td>2018 Jan 1</td><td>Balance b/d</td><td>\$ 1100 <u>1100</u></td><td></td></tr><tr><td></td><td></td><td></td><td></td><td>2019 Jan 1</td><td>Balance b/d</td><td>923</td><td>(1) OF</td></tr></table>	2018 Dec 31	Income statement Balance c/d	\$ 177 923 <u>1100</u>	(1) OF	2018 Jan 1	Balance b/d	\$ 1100 <u>1100</u>						2019 Jan 1	Balance b/d	923	(1) OF	2
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2(d)	<p>Prudence (1)</p> <p>Profit/current assets/trade receivables should not be overstated (1)</p> <p>OR</p> <p>Matching / accruals (1)</p> <p>Revenue of an accounting period is matched against the costs of the same period (1)</p>	2																
2(e)	<p>Sofia’s profit would now be \$4075 (4) a decrease of \$402. (1)</p> <p>Workings</p> <p>Using the existing policy the profit would be \$4477 (1) due to a decrease in the provision for doubtful debts (1) OF</p> <p>Under proposed change, the closing balance on the provision for doubtful debts account would be \$1325 (1).</p>	5																

Question	Answer	Marks
3(a)	<p>Companies may use different accounting policies (1)</p> <p>Historical cost is used to prepare accounts therefore may be misleading (1)</p> <p>There may be different year-ends/seasonal factors (1)</p> <p>There may be non-monetary factors to consider (1)</p> <p>Relative size of each business (1)</p> <p>The effect of window dressing (1)</p> <p>Accept any other valid responses</p> <p>Max 3 marks</p>	3
3(b)(i)	<p>Average inventory = $\frac{\\$459\,991}{7.5} = \\$61\,332$ (1)</p> <p>Average inventory $\times 2 = \\$122\,664$ (1)OF</p> <p>Closing inventory = $\\$122\,664 - \\$57\,682$</p> <p>= $\\$64\,982$ (1)OF</p>	3
3(b)(ii)	<p>$\frac{(35 \times \\$742\,630)}{365} = \\$71\,211$ (1)</p>	1
3(b)(iii)	<p>$\frac{(32 \times \\$367\,993^*)}{365} = \\$32\,262$ (1) OF</p> <p>* Credit purchases = $\\$459\,991 \times 80\% = \\$367\,993$ (1)</p>	2

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3(c)	<p style="text-align: center;">X Limited Income Statement for the year ended 30 April 2019</p> <table style="margin-left: auto; margin-right: auto;"> <tr><td></td><td style="text-align: right;">\$</td><td></td></tr> <tr><td>Revenue</td><td style="text-align: right;">742 630</td><td></td></tr> <tr><td>Cost of sales</td><td style="text-align: right;"><u>(459 991)</u></td><td></td></tr> <tr><td>Gross profit</td><td style="text-align: right;">282 639</td><td></td></tr> <tr><td> Distribution costs</td><td style="text-align: right;"> (148 526)</td><td style="text-align: right;"> (1)</td></tr> <tr><td>Administrative expenses</td><td style="text-align: right;"><u>(74 263)</u></td><td style="text-align: right;"> (1)</td></tr> <tr><td> Profit from operations</td><td style="text-align: right;"> 59 850</td><td></td></tr> <tr><td>Finance costs</td><td style="text-align: right;"><u>(2 850)</u></td><td style="text-align: right;"> (1)</td></tr> <tr><td>Profit for the year</td><td style="text-align: right;"><u>57 000</u></td><td></td></tr> </table>		\$		Revenue	742 630		Cost of sales	<u>(459 991)</u>		Gross profit	282 639		 Distribution costs	 (148 526)	 (1)	Administrative expenses	<u>(74 263)</u>	 (1)	 Profit from operations	 59 850		Finance costs	<u>(2 850)</u>	 (1)	Profit for the year	<u>57 000</u>		3
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3(d)	\$312 500 (1) / 5 = 62 500 shares (1) × \$1.50 = \$93 750 (1) OF	3																											

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4(a)(iii)	2000 (1)	1																																																

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4(b)	Easy to calculate (1) Inventory value is closer to current market value (1) An accepted method of valuing inventory for the financial statements (1) Max 2 marks Accept other valid points.							2																																																																
4(c)	<table><tr><th rowspan="3"></th><th rowspan="3">Total \$</th><th colspan="4">Production cost centres</th><th>Service cost centre</th><th></th></tr><tr><th rowspan="2">Machining \$</th><th rowspan="2"></th><th rowspan="2">Assembly \$</th><th rowspan="2"></th><th>Stores</th><th></th></tr><tr><th>\$</th><th></th></tr><tr><td>Depreciation</td><td>9 760</td><td>6 344</td><td></td><td>1 952</td><td></td><td>1 464</td><td>(1) row</td></tr><tr><td>Heat and Light</td><td>13 850</td><td>8 310</td><td></td><td>4 155</td><td></td><td>1 385</td><td>(1) row</td></tr><tr><td>Machinery maintenance</td><td>6 500</td><td><u>5 200</u></td><td></td><td><u>1 300</u></td><td></td><td><u> </u> -</td><td>(1) row</td></tr><tr><td>Total overheads apportioned</td><td></td><td>19 854</td><td></td><td>7 407</td><td></td><td>2 849</td><td></td></tr><tr><td>Re-apportionment of stores</td><td></td><td><u>2 137</u></td><td></td><td><u>712</u></td><td></td><td>(2 849)</td><td>(1) row</td></tr><tr><td>Total overhead cost</td><td></td><td><u>21 991</u></td><td>(1) OF</td><td><u>8 119</u></td><td>(1) OF</td><td></td><td></td></tr></table>								Total \$	Production cost centres				Service cost centre		Machining \$		Assembly \$		Stores		\$		Depreciation	9 760	6 344		1 952		1 464	(1) row	Heat and Light	13 850	8 310		4 155		1 385	(1) row	Machinery maintenance	6 500	<u>5 200</u>		<u>1 300</u>		<u> </u> -	(1) row	Total overheads apportioned		19 854		7 407		2 849		Re-apportionment of stores		<u>2 137</u>		<u>712</u>		(2 849)	(1) row	Total overhead cost		<u>21 991</u>	(1) OF	<u>8 119</u>	(1) OF			6
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4(d)	<p><u>Machining</u></p> <p>Overhead cost \$21 991</p> <p>Machine hours 13 400 = \$1.64 (1) OF per machine hour (1)</p> <p><u>Assembly</u></p> <p>Overhead cost \$8 119</p> <p>Labour hours 6 300 = \$1.29 (1) OF per direct labour hour (1)</p>	4																																																						
4(e)	<table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Direct materials (3 kilos × \$2.00)</td><td>6.00</td><td>(1)</td></tr> <tr> <td>Direct labour (2.5 hours × \$4)</td><td>10.00</td><td>(1)</td></tr> <tr> <td>Overheads (machining 1.5 hours × \$ 1.64)</td><td>2.46</td><td>(1) OF</td></tr> <tr> <td>Overheads (assembly 2 hours × \$1.29)</td><td>2.58</td><td>(1) OF</td></tr> <tr> <td>Cost per unit</td><td>21.04</td><td></td></tr> <tr> <td>× 200 units</td><td></td><td></td></tr> <tr> <td>Total cost</td><td>4 208</td><td>(1) OF</td></tr> <tr> <td>Mark-up/profit (25%)</td><td>1 052</td><td>(1) OF</td></tr> <tr> <td>Total selling price</td><td>5 260</td><td>(1) OF</td></tr> </table> <p style="text-align: center;">OR</p> <table> <tr> <td></td><td>\$</td><td></td></tr> <tr> <td>Direct materials</td><td>1 200</td><td>(1)</td></tr> <tr> <td>Direct labour</td><td>2 000</td><td>(1)</td></tr> <tr> <td>Overheads</td><td>492</td><td>(1) OF</td></tr> <tr> <td>Overheads</td><td>516</td><td>(1) OF</td></tr> <tr> <td>Total cost</td><td>4 208</td><td>(1) OF</td></tr> <tr> <td>Mark-up/profit (25%)</td><td>1 052</td><td>(1) OF</td></tr> <tr> <td>Total selling price</td><td>5 260</td><td>(1) OF</td></tr> </table>		\$		Direct materials (3 kilos × \$2.00)	6.00	(1)	Direct labour (2.5 hours × \$4)	10.00	(1)	Overheads (machining 1.5 hours × \$ 1.64)	2.46	(1) OF	Overheads (assembly 2 hours × \$1.29)	2.58	(1) OF	Cost per unit	21.04		× 200 units			Total cost	4 208	(1) OF	Mark-up/profit (25%)	1 052	(1) OF	Total selling price	5 260	(1) OF		\$		Direct materials	1 200	(1)	Direct labour	2 000	(1)	Overheads	492	(1) OF	Overheads	516	(1) OF	Total cost	4 208	(1) OF	Mark-up/profit (25%)	1 052	(1) OF	Total selling price	5 260	(1) OF	7
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Total selling price	5 260	(1) OF																																																						

Question	Answer	Marks
4(f)	<p>The offer still provides a positive contribution/generates profit (1)</p> <p>This will result in increased overall profits for the business (1) albeit the offer price will not achieve the usual mark up of 25% (1)</p> <p>The order will make use of existing spare capacity (1) which could be used to manufacture goods with a better mark-up (1)</p> <p>Is this a one-off order or will the customer expect future orders at the same price (1). Other customers could also want to buy at a reduced price (1) , and it could cause ill feeling with other customers (1)</p> <p>Decision (1)</p> <p>(1 mark) × any 4 points – Max 4 for comments</p>	5