Cambridge International AS & A Level

Cambridge Assessment International Education
Cambridge International Advanced Subsidiary and Advanced Level

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ACCOUNTING **9706/22**

Paper 2 Structured Questions **February/March 2019**

MARK SCHEME FINAL

Maximum Mark: 90

Question	Answer	Marks
1(a)	K Limited Income statement for the year ended 30 September 2018 $000 Revenue 936 Cost of sales **W1** (590) **(1)** Gross profit 346 **(1) OF** Administrative expenses **(W3)** (54) **(2) OF** Distribution costs **(W2)** (55) **(2) OF** Profit from operations 237 **(1) OF** Finance costs **(W4) (1*)** (6) **(1)** Profit for year 231 **(1) OF** **(1*)** for recording debenture interest as ‘finance costs)’ **W1** Cost of sales = As per trial balance $587 000 + Carriage inwards $3000 = $590 000 **W2** Distribution costs $000 As per trial balance 46	10

	Less carriage inwards	(3)	**(1)**
	Depreciation	12	**(1)**
		55	

W3 Administration expenses

	$000	
As per trial balance	42	
Less insurance prepaid $\left(\frac{2}{3}\times 9\right)$	(6)	**(1)**
Depreciation $2\frac{1}{2}\% \times (980 - 260)$	18	**(1)**
	54	

W4 Finance costs: $\left(8\% \times 75\right)$ = 6

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>1(b)</td><td>
Statement of changes in equity for the year ended 30 September 2018
<table>
<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>
<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>450</td><td></td><td>90</td><td></td><td>277</td><td></td><td>817</td><td>(1) OF</td></tr>
</table>

W1 Rights issue and opening balances

Rights issue: 1 for 2 leading to share capital 450: so issue was $\frac{1}{3} \times 450 = 150$

Share premium: 20 cents on each 50 cents share = $\frac{2}{5} \times 150 = 60$

Opening share capital: 450 – 150 = 300
Opening share premium: 90 – 60 = 30
</td><td>6</td></tr>
</table>

Question	Answer	Marks
1(c)	**Rights issue (Max 2)** 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)** **Debentures (Max 2)** 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)** **1** mark for decision + **Max 4** marks for justification	**5**
1(d)	Effect on liquidity 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)** **Max 3 marks**	**3**

Question	Answer	Marks
1(e)	Put in place measures to more closely monitor trade receivable accounts (frequent reminders; issuing of statements of account). **(1)** Refuse credit terms to late payers. **(1)** Offer cash discounts to encourage prompt payment. **(1)** Charge interest on overdue accounts **(1)** Ask for cash with order /increase cash sales **(1)** **Max 3 marks**	**3**
1(f)	Delaying payments to suppliers may mean the loss of cash discounts which would have an impact on profits. **(1)** Cause some suppliers to refuse credit terms which would have an adverse effect on liquidity. **(1)** Force the business to find alternative suppliers who are unable to supply goods on the same quality. **(1)** May create a bad relationship with suppliers. **(1)** May incur interest charges **(1)** **Max 3 marks**	**3**
	Total:	**30**

<table>
<tr><th>Question</th><th>Answer</th><th>Marks</th></tr>
<tr><td>2(a)</td><td>Death / ill health / retirement of a partner (any one) (1)
A partner has been declared bankrupt (1)
Disagreement between partners (1)
Insufficient level of profits / incurring losses (1)
Insufficient levels of cash reserves (1)
Partnership has achieved its purpose (1)
Max 4 marks</td><td>4</td></tr>
<tr><td>2(b)</td><td>Mira, Sasha and Peta Realisation account
<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>(1)</td><td>Capital account - Sasha</td><td>4 500</td><td>(1)</td></tr>
<tr><td>Motor vehicles</td><td>22 000</td><td></td><td>Trade payables</td><td>26 400</td><td>(1)</td></tr>
<tr><td>Inventory</td><td>20 600</td><td></td><td>Bank - non-current assets</td><td>64 300</td><td></td></tr>
<tr><td>Trade receivables</td><td>42 800</td><td></td><td>Bank - inventory</td><td>19 800</td><td></td></tr>
<tr><td>Bank - trade payables</td><td>26 000</td><td></td><td>Bank - trade receivables</td><td>40 500</td><td></td></tr>
<tr><td>Bank - Dissolution costs</td><td>3 700</td><td>(1)</td><td>Capital account Mira $\frac{2}{5}$</td><td>1 920</td><td>(1) OF</td></tr>
<tr><td></td><td></td><td></td><td>Sasha $\frac{2}{5}$</td><td>1 920</td><td></td></tr>
<tr><td></td><td></td><td></td><td>Peta $\frac{1}{5}$</td><td>960</td><td></td></tr>
<tr><td></td><td>160 300</td><td></td><td></td><td>160 300</td><td></td></tr>
</table></td><td>5</td></tr>
</table>

Question	Answer	Marks

2(c)

Mira, Sasha and Peta Capital accounts

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

2(d)

Mira, Sasha and Peta Bank account

	$			$	
Realisation account	64 300	Balance b/d		1 900	**(1)**
Realisation account	19 800	Realisation account		26 000	
Realisation account	40 500	Realisation account		3 700	
		Capital account	Mira	43 580	**(1) OF**
			Sasha	36 380	
			Peta	13 040	
	124 600			124 600	

2

2(e)

Credit control was not up-to-date. **(1)**

There were uncorrected errors in the receivables ledger overstating certain accounts. **(1)**

Becoming aware that the partnership was ceasing, certain receivables avoided paying. **(1)**

Customer bankrupt **(1)**

May have been some irrecoverable debts **(1)**

Offered cash discount **(1)**

Max 2

2

Total: **15**

Question	Answer	Marks
3(a)(i)	General expenses $ Opening balance prepaid 480 **(1)** Payment 12 400 Closing balance due 1 210 **(1)** 14 090 **(1) OF**	3
3(a)(ii)	Insurance $ Premiums paid 6 480 Less prepayment $\frac{1}{6} \times \$630$ (105) 6 375 **(1)**	1
3(a)(iii)	Rent receivable $ Rent received 5 460 Add amount due $\frac{1}{3} \times \$1200$ 400 5 860 **(1)**	1
3(a)(iv)	Closing inventory at 31 December 2018 $ 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**	3

Question	Answer	Marks
3(b)	Accounting concepts: accruals (matching) **(1)**; prudence **(1)**	**2**
3(c)	The original provision for doubtful debts was: $\frac{5}{95}$ × \$34 200 = \$1800 **(1)** The new provision for doubtful debts will be: \$ Total balances of trade receivables at 31 December 2018 — 37 200 Less irrecoverable debts (\$680 + \$360) — 1 040 Net — 36 160 **(1)** New provision for doubtful debts (5% × \$36 160) — 1 808 **(1) OF** Entry in income statement will be for an increase **(1) OF** \$8 **(1) OF**	**5**
	Total:	**15**

Question	Answer	Marks

4(a)

	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**

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4(b)

	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**

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Question	Answer	Marks
4(c)	**Financial factors: Max 3** If the production level is as budgeted, machine rental is ($8000) lower / profit is ($8000) more with the new agreement. **(1)** Fixed costs will reduce by $72 000 **(1)** If the production level is below budget, the saving is greater with the new agreement. Therefore, the new agreement reduces risk. **(1)** Even if production levels rise and increase the total cost, unit contribution is still positive. **(1)** If production levels rise, machine rental will become higher than before under the new agreement. **(1)** The removal of the old machinery and installation of the new may incur additional costs. **(1)** There could be costs of staff training with the new machinery. **(1)** **Non-financial factors: Max 3** The new agreement could mean new machinery which is more up-to-date / reliable / economical to run. **(1)** The removal of the old machinery and installation of the new would be very disruptive. **(1)** There could be teething problems with the new machinery. **(1)** There would be a learning curve. **(1)** Will new machinery produce equivalent quality The new machinery has unknown reliability/availability of spare parts. **(1)** **Overall max 6 for justification + (1) for decision**	**7**
4(d)	The business can calculate contribution per unit of scarce resource. **(1)** Thus, it can rank its products **(1)** and prepare a production schedule **(1)** to maximise profit **(1)** by prioritising products with the highest contribution per unit of scarce resource. (**1)** **Max 4**	**4**

Question	Answer	Marks
4(e)	Make or buy decisions **(1)** Accepting orders at below normal selling price **(1)** Closing department / discontinuing product **(1)** **Max 2**	**2**
	Total:	**30**