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**ACCOUNTING**

**9706/22**

Paper 2 Structured Questions

**October/November 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 International will not enter into discussions about these mark schemes.

Cambridge International is publishing the mark schemes for the October/November 2017 series for most Cambridge IGCSE<sup>®</sup>, Cambridge International A and AS Level components and some Cambridge O Level components.

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1	<p style="text-align: center;">Ross Income Statement for the year ended 31 March 2017</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;"></th> <th style="width: 20%; text-align: right;">\$</th> <th style="width: 20%; text-align: right;">\$</th> </tr> </thead> <tbody> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">92 520 (1)</td> </tr> <tr> <td>Returns inwards</td> <td></td> <td style="text-align: right;"><u>(1 240) (1)</u></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">91 280</td> </tr> <tr> <td>Cost of sales</td> <td></td> <td></td> </tr> <tr> <td>Opening inventory</td> <td style="text-align: right;">21 640 (1)</td> <td></td> </tr> <tr> <td>Purchases</td> <td style="text-align: right;">38 950</td> <td></td> </tr> <tr> <td>Returns outwards</td> <td style="text-align: right;"><u>(440) (1)</u></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">60 150</td> <td></td> </tr> <tr> <td>Closing inventory <b>W1</b></td> <td style="text-align: right;"><u>(25 900) (2)</u></td> <td style="text-align: right;"><u>34 250</u></td> </tr> <tr> <td>Gross profit (<i>must be labelled</i>)</td> <td></td> <td style="text-align: right;"><u>57 030 (1of)</u></td> </tr> <tr> <td>Deduct: expenses</td> <td></td> <td></td> </tr> <tr> <td>Carriage outwards</td> <td style="text-align: right;">1 090 (1)</td> <td></td> </tr> <tr> <td>Property rental <b>W2</b></td> <td style="text-align: right;">13 920 (2)</td> <td></td> </tr> <tr> <td>Heating and lighting</td> <td style="text-align: right;">1 940</td> <td></td> </tr> <tr> <td>Travel expenses</td> <td style="text-align: right;">2 060</td> <td></td> </tr> <tr> <td>General expenses</td> <td style="text-align: right;">6 690</td> <td></td> </tr> <tr> <td>Irrecoverable debt written off</td> <td style="text-align: right;">1 250 (1)</td> <td></td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;"><u>1 490 (1)</u></td> <td style="text-align: right;"><u>28 440</u></td> </tr> <tr> <td>Profit for the year (<i>must be labelled</i>)</td> <td></td> <td style="text-align: right;"><u>28 590 (1of)</u></td> </tr> <tr> <td><b>W1</b> (23 400 (1) + 2500 (1))</td> <td></td> <td></td> </tr> <tr> <td><b>W2</b> (16 240 (1) – 2320 (1))</td> <td></td> <td></td> </tr> </tbody> </table>		\$	\$	Revenue		92 520 (1)	Returns inwards		<u>(1 240) (1)</u>			91 280	Cost of sales			Opening inventory	21 640 (1)		Purchases	38 950		Returns outwards	<u>(440) (1)</u>			60 150		Closing inventory <b>W1</b>	<u>(25 900) (2)</u>	<u>34 250</u>	Gross profit ( <i>must be labelled</i> )		<u>57 030 (1of)</u>	Deduct: expenses			Carriage outwards	1 090 (1)		Property rental <b>W2</b>	13 920 (2)		Heating and lighting	1 940		Travel expenses	2 060		General expenses	6 690		Irrecoverable debt written off	1 250 (1)		Depreciation	<u>1 490 (1)</u>	<u>28 440</u>	Profit for the year ( <i>must be labelled</i> )		<u>28 590 (1of)</u>	<b>W1</b> (23 400 (1) + 2500 (1))			<b>W2</b> (16 240 (1) – 2320 (1))			<b>13</b>
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3(b)	Matching (1) – cost of non-current asset matched with the revenue earned (1) Prudence (1) – to ensure that profit/carrying value of non-current assets is not overstated. (1) Consistency (1) – to enable valid comparison (1) <b>Max 4 marks</b>	4																																																																					
3(c)	<p><b>Bank loan</b>            The lender would need to be convinced that the company can meet the interest and repayment obligations. (1)            Bank loan must be repaid. (1)            The loan may need to be secured (1) on the plant and equipment purchased.            Loan interest will be charged (1) to the Income Statement reducing profits.            A loan will increase the gearing of the company. (1)            Takes less time to issue. (1)</p> <p><b>Share issue</b>            The company has flexibility as to the level of dividends payable on the shares. (1)            Share capital does not need to be repaid. (1)            There may be loss of control. (1)            Issue of more shares may dilute the share price. (1)            Share issue is an expensive (1) process.            Issuing ordinary shares will not increase the gearing. (1)            Takes more time to issue. (1)            No interest has to be paid. (1)</p> <p><b>(1 for decision, and max 4 for justification).</b></p>	5																																																																					

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4(a)	<p><b>Benefits (Max 2)</b>            Calculate the break-even point            Calculate margin of safety            Helps with (short term) decision making            Easy to predict profits and losses at different levels of output.            Quick method of calculating to show impact of decision on profits.</p> <p><b>Limitations (Max 2)</b>            Some costs are difficult to classify as fixed or variable.            Not applicable when multiple products are involved.            Assumes selling price remains constant.            Assumes variable/fixed costs remain constant.            Based on estimates that may not be accurate.            Assumes that all production is sold.</p> <p><b>Accept other valid answers.</b></p>	<b>4</b>																												
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Breakeven point (4200 / 20)	210 units		(1)																											
4(c)(i)	In units: $240 - 210 = 30$ units <b>(1)OF</b>	<b>2</b>																												
4(c)(ii)	In revenue: $\$45 \times 30 = \$1350$ <b>(1)OF</b>																													
4(d)	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Maximum capacity</td> <td style="width: 20%;"><math>240 \times 100 / 75</math></td> <td style="width: 20%; text-align: right;">320 units</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: right;"><b>(1)</b></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">\$</td> <td></td> <td></td> </tr> <tr> <td>Contribution</td> <td><math>320 \times \\$20</math></td> <td style="text-align: right;">6400</td> <td></td> <td style="text-align: right;"><b>(1OF)</b></td> </tr> <tr> <td>Fixed costs</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">4200</td> <td></td> <td></td> </tr> <tr> <td>Maximum profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">2200</td> <td></td> <td style="text-align: right;"><b>(1OF)</b></td> </tr> </table>	Maximum capacity	$240 \times 100 / 75$	320 units		<b>(1)</b>			\$			Contribution	$320 \times \$20$	6400		<b>(1OF)</b>	Fixed costs		4200			Maximum profit		2200		<b>(1OF)</b>	<b>3</b>			
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4(e)	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;">Sales revenue</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>240 × \$49.50</td> <td></td> <td></td> <td style="text-align: right;">11 880</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>150 × \$42</td> <td></td> <td></td> <td style="text-align: right;">6 300</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">18 180</td> <td></td> </tr> <tr> <td>Variable costs</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Direct material (390 × \$15)</td> <td style="text-align: right;">(5 850)</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Direct labour (320 × \$8) + (70 × \$10)</td> <td style="text-align: right;">(3 260)</td> <td style="text-align: right;">(1)</td> <td></td> <td></td> </tr> <tr> <td>Variable overheads (390 × \$2)</td> <td style="text-align: right;">(780)</td> <td style="text-align: right;">(1)</td> <td style="text-align: right;">(9 890)</td> <td></td> </tr> <tr> <td>Contribution</td> <td></td> <td></td> <td style="text-align: right;">8 290</td> <td style="text-align: right;">(1of)</td> </tr> <tr> <td>Fixed costs (4200+500+200)</td> <td></td> <td></td> <td style="text-align: right;">(4 900)</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Maximum profit</td> <td></td> <td></td> <td style="text-align: right;">3 390</td> <td style="text-align: right;">(1of)</td> </tr> </table> <p><b>Alternative presentation</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td>Contribution</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Existing customers</td> <td style="text-align: right;">240 × (49.50 – 25.00)</td> <td style="text-align: right;">5 880</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Bart Supplies</td> <td style="text-align: right;">80 (1) × (42 – 25) (1)</td> <td style="text-align: right;">1 100</td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">70 (1) × (42 – 27) (1)</td> <td style="text-align: right;">1 710</td> <td></td> </tr> <tr> <td>Total contribution</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">8 290</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Fixed costs</td> <td style="text-align: right;">(4200 + 500 + 200)</td> <td style="text-align: right;">4 900</td> <td style="text-align: right;">(1)</td> </tr> <tr> <td>Maximum profit</td> <td></td> <td style="text-align: right; border-top: 1px solid black;">3 390</td> <td style="text-align: right;">(1)</td> </tr> </table>	Sales revenue					240 × \$49.50			11 880	(1)	150 × \$42			6 300	(1)				18 180		Variable costs					Direct material (390 × \$15)	(5 850)	(1)			Direct labour (320 × \$8) + (70 × \$10)	(3 260)	(1)			Variable overheads (390 × \$2)	(780)	(1)	(9 890)		Contribution			8 290	(1of)	Fixed costs (4200+500+200)			(4 900)	(1)	Maximum profit			3 390	(1of)	Contribution				Existing customers	240 × (49.50 – 25.00)	5 880	(1)	Bart Supplies	80 (1) × (42 – 25) (1)	1 100			70 (1) × (42 – 27) (1)	1 710		Total contribution		8 290	(1)	Fixed costs	(4200 + 500 + 200)	4 900	(1)	Maximum profit		3 390	(1)	8
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4(f)	<p><b>Benefits (maximum 4 marks)</b></p> <ul style="list-style-type: none"> <li>• Profits increase (1) by \$2790 (1) (3390 – 600)</li> <li>• Directors' target profit (of \$40 680) (1of) per annum is greater than (30 000) target. (1)</li> <li>• Business utilises full capacity (1) which will maximise profits. (1)</li> <li>• Increased advertising may result in increased business (1) and new customers leading to growth. (1)</li> <li>• Produces a positive contribution (1) \$1890 (1)</li> </ul> <p><b>Limitations (maximum 4 marks)</b></p> <ul style="list-style-type: none"> <li>• Workforce working to full capacity (1) may affect product quality/output. (1)</li> <li>• Existing customers may be dissatisfied with the price increase, (1) resulting in lost sales/lower profits (1)</li> <li>• Additional storage rental commitment may not be required if new contract ceases, (1) reducing profits (1)</li> <li>• Becoming reliant on one customer (1) as don't know how long the order may last (1)</li> </ul> <p><b>(1) Mark for advice and overall max 6 marks for justification</b></p>	7																																																																																			

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4(g)	<p>Facilitates profit maximisation <b>(1)</b> Enhanced cash management by identifying future inflows and outflows. <b>(1)</b> Facilitates working capital requirement planning. <b>(1)</b> Enables capital expenditure planning. <b>(1)</b></p> <p><b>Note</b> Benefits must be <b>financial</b> benefits. Do not reward: co-ordination, planning, decision making etc. unless developed from a financial perspective.</p> <p><b>1 mark for each valid benefit. Maximum 3 marks.</b></p>	<b>3</b>